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AN INTRODUCTORY ANALYSIS  
OF THE  
WHOLESALE PLUMBING AND HEATING INDUSTRY  
IN CANADA

by



ROBERT FRASER BALFOUR

A THESIS

SUBMITTED TO THE FACULTY OF GRADUATE STUDIES  
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FACULTY OF GRADUATE STUDIES

The undersigned certify that they have read, and recommend to the Faculty of Graduate Studies for acceptance, a thesis entitled An Introductory Analysis of the Wholesale Plumbing and Heating Industry in Canada, submitted by Robert F. Balfour in partial fulfilment of the requirements for the degree of Master of Business Administration.



## ABSTRACT

This thesis is an introductory study of the Wholesale Plumbing and Heating Industry in Canada. More specifically, it is concerned with the future of the traditional middleman in the distribution function, the independent wholesaler.

The writer is concerned with the future of the wholesaler, and not the function as such. It is who performs the function that is of paramount importance, the assumption being that it must be performed.

Self-awareness and survival are of paramount importance to the individuals involved in the wholesale plumbing and heating industry. As a result, this thesis, as well as being an academic study, is intended to be of a practical, useful nature to the industry involved.

Information was collected through September 1968 to July 1969 by use of a short questionnaire and through a series of personal interviews by the writer.

The industry as such has been subjected to very little academic study in the past, and because of this, the conclusions are consequently subjective in nature. In any event, the thesis should provide the initial groundwork for future studies.

The major conclusions that resulted from the analysis of the information collected were:

1. Patterns of distribution have changed since the 1950's. These changes were the result of the development of the prefabricated and mobile home markets, and the remodelling and renovation markets. Mass merchandising at the retail level is resulting in direct bypassing of the wholesale middleman.

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2. The wholesaler should not integrate into retailing at this time, but rather orient a part of his business towards serving of retail accounts. To do this, showrooms should be established or updated rather than discontinued. The wholesaler must endeavour to upgrade sales to architects, home buyers and apartment builders.

3. Pre-assembled packages are becoming a necessity due to the prefab and mobile home markets.

4. A polarization process is taking place with the independent at one pole, and the large integrated wholesaler at the opposite pole. This development should not harm his interests, but assist him in the servicing and development of specialized markets. The independent wholesaler must decide where his market is, and then determine how to serve it in the most efficient manner. The wholesaler cannot perform all the traditional functions anymore, but he can perform some functions much better than can the manufacturer or retailer.

5. Vertical integration has a very real future in the PHC Industry. The corporate system is most likely to appear, while whole-sale-sponsored voluntary groups are another possibility. Franchised store programs are also likely to develop in the near future.

6. The independent, as such, will likely disappear gradually from the industry. Specialization, group buying and horizontal integration will prolong their lives, but the traditional wholesaler performing traditional functions is fast disappearing.



## ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to all those persons who contributed to the development of this study.

I wish to thank Mr. James Dunn, Supervisor, and the other members of the Committee, Mr. P. Hugstad and Father Pendergast whose assistance is greatly appreciated.

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## CHAPTER I

### THE COMPARATIVE ROLE OF WHOLESALING

The ability of the independent wholesaler to survive in the face of changing market conditions has been a topic of major interest since the decade of the 1930's.<sup>1</sup>

There are many different views regarding the position of the wholesaler in our economy. The manufacturer and the retailer in their eagerness to deal directly with each other have, in many cases, eliminated the wholesaler. The general public--the consumer--approves of these developments in the belief that goods would cost substantially less if the "middleman's profits" were not included in the retail price.

Historically, as much as two-thirds to three-fourths of the manufacturers' output has moved through their own wholesale branches or directly to retailers and various types of consumers.<sup>2</sup> However, few manufacturers have attempted to completely integrate and eliminate the retailer. While there are some notable examples of successful direct-to-consumer selling in such fields as apparel, housewares, and household equipment, cosmetics and specialty foods, altogether they do not

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<sup>1</sup>For more information see: Warshaw, Martin R., Effective Selling Through Wholesalers, The University of Michigan, Ann Arbor, 1961, p. 1.

<sup>2</sup>Edwin H. Lewis, "Comeback of the Wholesaler", Harvard Business Review, Nov. - Dec., 1955, p. 115.



account for more than one percent of all goods sold at retail.<sup>3</sup>

While consumers' skepticism about the wholesaler reflects ignorance of the need for this particular marketing function, the attitude of manufacturers represents a basic competitive drive, specifically the desire to maximize profits by performing any or every function most efficiently. Thus, many manufacturers have found it expedient to undertake the wholesale function themselves in circumstances like the following:<sup>4</sup>

1) where the produce has a high degree of style element or physical perishability. In such situations, the closer the manufacturer is to the market (timewise or in a number of marketing steps), the less his risk is likely to be;

2) where it is necessary to design or modify the product to meet the customer's needs, or where the customer expects a considerable amount of servicing. In such cases, the manufacturer often finds it more effective to sell direct;

3) where the wholesaler is not anxious to push the product because it is not important to him or may even be in competition with a private brand of his own. In such cases, the manufacturer can use missionary salesmen or other devices to stimulate the wholesaler's efforts, but this may not be enough;

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<sup>3</sup>Victor P. Buell, "Door-to-Door Selling", Harvard Business Review, May-June, 1954, p. 113.

<sup>4</sup>Edwin H. Lewis, "Comeback of the Wholesaler", Harvard Business Review, Nov. - Dec., 1955, p. 117.



4) where the margin on the product is enough to support the cost of more concentrated or specialized selling. In such cases, the manufacturer may find that the resulting additional volume will offset the increased expense sufficiently to raise total dollar net profits.

The so-called "elimination" of the wholesaler does not mean the elimination of the function itself. It simply means that the manufacturer or the retailer has decided that it would be a good risk to attempt to do the wholesaling job himself. In some cases, he will be successful in reducing the expense of operating the wholesale activity and/or in increasing volume enough so that the cost per item handled is lower. In other cases he will not be successful.

The term "wholesaler" is often used to describe the regular wholesaler, service wholesaler, and the full-function wholesaler. The U.S. Bureau of the Census defines "Wholesale Merchant Distributors" as follows:

Merchant wholesale establishments primarily engaged in buying and selling in the domestic market who perform most of the principal wholesale functions - they buy and sell merchandise on their own account, sell principally to retailers or to industrial, commercial or professional users; usually carry stocks; assemble in large lots and generally redistribute in smaller quantities, usually through salesmen; extend credit to customers; make deliveries; service merchandise sold; and render advice to the trade.<sup>5</sup>

As defined by Dominion Bureau of Statistics 1969 Census Reports, there are five major types of wholesale operation.

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<sup>5</sup>Beckman, T.N., H.H. Engle, and R.D. Buzzell, Wholesaling (New York: The Ronald Press Company, 1959), p. 109.



Wholesale merchants comprise the largest major group, numbering 22,434 locations with sales of 11,219,158,700 dollars. These merchants perform all the regular wholesale functions, as will be discussed in Chapter II.

Import merchants, with 3,762 locations and sales of 2,251,-227,100 dollars are next in importance to wholesale merchants.

Third in importance are agents and brokers with 2,000 locations and sales of three billion dollars. Agents and brokers are not full function wholesalers, rarely extending credit and rarely handling the goods for which they arrange sales.

There are 90 merchandise brokers with total sales of over a billion dollars.

Generally, agents and brokers will conduct a much larger volume of business per unit of input than will the wholesale merchant.

Petroleum bulk distributors and co-operative marketing associations account for the remaining wholesale trade in Canada.



TABLE I, WHOLESALE TRADE BY TYPE OF OPERATION, FOR CANADA, 1961

Type of Operation	Number of Locations	Sales	
		Amount \$000's	%
Total, all locations	30,855	19,452,747.0	100.0
Co-operative marketing associations and other dealers in primary products -	1,277	1,780,411.9	9.2
Agency type	162	243,085.7	1.3
Patronage dividend type	129	191,746.7	1.0
Primary Product Dealers, other than co-operatives	986	1,345,579.5	6.9
Wholesale merchants	22,434	11,219,158.7	57.7
Export merchant	113	715,291.2	3.7
Import merchant	3,762	2,251,227.1	11.6
Cash-and-carry wholesaler	96	25,709.1	0.1
Drop shipper or desk jobber	147	80,905.1	0.4
Mail order wholesaler	47	11,402.4	0.1
Truck distributor	255	42,702.4	0.2
Voluntary group wholesaler	81	478,926.0	2.5
Rack jobber	65	16,431.1	0.1
General wholesale distributor	17,868	7,596,564.3	39.0
Agents and brokers	2,042	2,984,219.1	15.3
Export agent or broker	33	317,219.2	1.6
Import agent or broker	350	298,993.8	1.5
Auction business	88	239,976.6	1.2
Purchasing agent or resident buyer	24	64,978.7	0.3
Selling agent	152	78,509.5	0.4
Commission merchant	144	185,099.3	1.0
Broker (merchandise)	90	1,078,846.4	5.6
Manufacturers' agent	1,161	720,595.6	3.7
Manufacturers' sales branches	767	1,401,460.4	7.2
Manufacturers' sales branch with stocks	736	1,190,947.4	6.1
Manufacturers' sales branch without stocks	31	210,513.0	1.1
Petroleum bulk tank plants and truck distributors	4,335	2,067,496.9	10.6
Salaried bulk tank plants	742	1,314,023.0	6.8
Bulk consignees	2,405	364,243.7	1.9
Tank truck consignees (without tank plants)	192	22,547.1	0.1
Independent bulk tank plants	841	340,985.8	1.7
Independent dealers (without tank plants)	155	25,697.3	0.1



TABLE II

GROSS MARGIN AND OPERATING EXPENSES AS PERCENTAGES OF NET SALES OF A PANEL OF REPORTING WHOLESALE ESTABLISHMENTS (INCORPORATED COMPANIES ONLY), BY MAJOR TYPE OF OPERATION AND SELECTED KIND OF BUSINESS, FOR CANADA, 1961

Kind of Business	Wholesale Merchants		
	Net Profit Before Tax	Gross Margin	Operating Expenses
Toys, novelties and fireworks	3.11	23.94	20.83
Automotive parts and accessories	4.12	28.77	24.89
Motor Vehicles	1.45	14.00	12.55
Beer, wine and distilled spirits	2.01	16.03	14.02
Industrial chemicals	2.12	14.49	12.61
Drugs and drug sundries	1.71	12.82	10.53
Coal and coke	1.85	11.97	10.12
Clothing and/or furnishings (General line)	2.00	15.17	13.17
Clothing, women's	1.32	18.73	17.41
Dry goods (general line)	1.81	17.44	15.63
Piece goods	1.99	13.90	10.91
Electrical merchandise	3.00	19.47	16.47
Electrical appliances	1.49	17.11	15.62
Radios and television sets and equipment	4.50	23.65	19.15
Electrical wiring supplies and construction materials	2.75	17.57	14.82
Other electrical specialties	1.09	24.96	23.87
Grain	.82	1.51	0.69
Livestock	1.05	12.55	11.50
Farm supplies (general line)	2.19	21.01	18.82
Feed, Hay and grain	1.83	14.79	12.96
Confectionery	4.39	18.14	13.75
Cigars, cigarettes and tobacco	.73	6.53	5.80
Dairy and poultry products (general line)	.28	12.74	12.46
Frozen or frosted foods	.21	8.33	8.12
Fruits and vegetables, fresh (general line)	1.72	13.35	11.63
Meats and meat products	1.11	8.80	7.69
Produce	.98	11.53	10.55
Pulpwood	1.33	10.37	9.04
Household furniture	2.07	18.93	16.86
Floor coverings	1.73	15.72	13.99
General merchandise	2.38	18.47	16.09
Groceries (general line)	.83	6.92	6.09
Canned goods	1.56	10.74	9.18
Hardware (general line)	.45	18.11	17.66
Hardware (specialty line)	3.02	24.55	21.53
Jewellery (specialty line)	4.92	26.72	21.80
Leather and leather goods (general line)	.99	14.94	13.95

/.../cont'd



TABLE II (cont'd)

Kind of Business	Wholesale Merchants		
	Net Profit Before Tax	Gross Margin	Operating Expenses
Building Materials (general line)	4.13	22.29	18.16
Lumber	1.45	12.58	11.13
Lumber and millwork	2.97	20.95	17.98
Construction machinery and equipment, new and used	2.35	23.65	21.30
Farm machinery and equipment	1.86	19.12	17.26
Industrial machinery, equipment and supplies (general line)	1.83	23.39	21.56
Metal working machinery	2.71	26.77	24.06
Oil-well and oil-refining machinery and equipment	2.37	14.59	12.22
Miscellaneous industrial machinery, equipment and supplies	2.85	23.28	20.43
Surgical, medical and hospital equipment and supplies	3.99	27.63	23.74
Iron and steel (general line)	2.26	15.01	12.75
Structural steel	1.18	11.70	10.52
All other metals and metal work (except non-ferrous products)	3.71	21.90	18.19
Non-ferrous metals and metal work	.90	5.95	5.05
Paper and paper products (general line)	2.91	17.94	15.03
Other paper and paper goods	3.05	19.42	16.37
Plumbing equipment and supplies	1.91	17.71	15.80
Plumbing and heating equipment and supplies (general line)	2.53	18.37	15.84
Scrap metal	3.12	21.22	18.30
Waste materials (other than scrap metal)	4.18	27.11	22.93
Miscellaneous kinds of business, n.e.s.	4.32	28.38	24.06



Table II indicates wholesalers characteristically operate at very low profit levels. In most cases, they rely on increased volume to hold up total dollar profits.

It is obviously difficult for the manufacturer to perform the basic wholesale function more economically than it can be done by independent wholesalers operating at such profit rates. Indeed, if the manufacturer bypasses the wholesaler, it is likely to be for the higher profits that come from more aggressive selling, better control of distribution to capitalize on consumer advertising, to guarantee an outlet for his product in the face of changing conditions, or for any number of reasons rather than for lower operating costs.

Large-scale retailers at the opposite end of the channel also are a thorn in the side of the independent wholesaler. Chains, consumer co-operatives, retailer co-operatives, mail-order houses and department stores, because of the types of goods purchased and the quantities involved, usually find it advantageous to deal directly with manufacturers. They have no need to buy from wholesalers, except for occasional fill-in orders or merchandise controlled by wholesale franchises.

This, then, is the competitive framework within which the wholesale merchant must operate. His primary tasks have been: (a) to improve his methods of operation, and (b) to adapt his policies to meet the needs of his suppliers and customers.

The decisive development in the American economy at the present time is the growing importance of vertical marketing systems in virtually all lines of trade.



Available data unequivocally indicate that:

- Conventional marketing channels are rapidly being displaced by vertical marketing systems as the dominant distribution mechanisms in the American economy.
- Competition--to an increasing extent--involves rivalry between these systems as well as between the individual firms or units that comprise them.<sup>6</sup>

There are, then, conflicting views concerning the patterns of distribution which we can expect to predominate in the foreseeable future in the United States and Canada. What future pattern distribution will take depends largely on the industry involved, as will be outlined in Chapters IV, V and VI.

It is the purpose of this thesis to study only one industry in Canada--that of plumbing and heating products distribution. The plumbing and heating industry in Canada (hereafter referred to as PHC industry) is characterized at present by manufacturer-wholesaler integrated firms, horizontally integrated or "conglomerate" firms, and "independents". For purposes of this thesis, the independent will be defined as a wholesale house owned and operated by individuals or groups separate from manufacturer or retailer control. That is to say, the independent is characterized in the "traditional" marketing channel of manufacturer-wholesaler-retailer as a completely autonomous unit, where each layer of activity is clearly separated from the others.

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<sup>6</sup> B.C. McCammon, Jr., A.F. Doody, and W.R. Davidson, Emerging Patterns of Distribution, Report to the National Association of Wholesalers, Las Vegas, Nevada, January 15, 1969.



This thesis will review the effect of past changes in distribution on the independent, and attempt to determine how future changes in distribution will affect him. In other words, the main purpose of this thesis is to attempt to answer the question, "What future does the independent wholesaler have in the plumbing and heating industry in Canada?"

As well as being an academic study, the thesis has the objective of being useful to the PHC industry itself.

Occasionally, the writer will draw data from other industries, and from the PHC industry in the United States for comparative purposes. Unfortunately, very little academic research has been done on this industry, and therefore, this thesis should be considered as an introductory study only.

The writer has included at this point some relatively up-to-date material on the PHC industry in Canada.

The following information was obtained from the Canadian Institute of Plumbing and Heating and is summarized in their annual Wholesale Operating Costs Survey (see appendix).

While more detailed information on profits before tax is shown in the appendix, the writer has used information from Volume Group 4 only; that is to say, wholesalers with sales over \$5,000,000 yearly.



TABLE III

YEAR	PROFIT - % OF SALES	NET SALES	GROSS PROFIT	EXPENSES
1968	-	100.00	Not Sufficient Reports	
1967	1.84	100.00	15.22	13.38
1966	3.03	100.00	16.03	13.20
1965	3.44	100.00	16.66	13.22
1964	3.40	100.00	17.05	13.65
1963	3.36	100.00	16.71	13.35
1962	3.69	100.00	17.28	13.59
1961	3.34	100.00	16.23	12.89
1960	2.09	100.00	16.11	14.02
1959	2.48	100.00	15.31	12.83
1958	2.84	100.00	15.44	12.60



TABLE IV

YEAR	SALES/SALESMAN	SALES COMPARED WITH LAST YEAR	% PROFIT
1968	..... Not Sufficient Reports .....		
1967	805,134	- 5.15	1.84
1966	701,238	+ 1.00	3.03
1965	571,254	+ 9.06	3.44
1964	548,342	+ 11.39	3.40
1963	513,263	+ 10.58	3.36
1962	454,085	+ 9.82	3.69
1961	414,513	+ 3.92	3.34
1960	469,279	- 9.01	2.09
1959	460,537	+ 5.91	2.48
1958	385,259	+ 2.56	2.84



Table III indicates that, while not really declining drastically, net profit before tax is quite low in the PHC business.

The reader will note the gross profit has dropped considerably from 1960 to 1968, while expenses have remained reasonably constant.

Table IV compares sales with net profit before tax. Sales have obviously been increasing five to ten percent per year over most of the ten-year period, while profits have remained stable and declined somewhat in 1967.

Sales compared with last year drop considerably during this 1964 to 1968 period. This period seems to be quite distinct in the plumbing and heating industry.



## CHAPTER II

### DEFINITION OF TERMS AND METHODOLOGY

#### Basic Marketing Channels

There are essentially four basic marketing channels:

1) Producer - Consumer

This channel is simple and appears logical and economical. Actually, the producer's initial selling costs are greater than in the case of other channels. The producer assumes many of the marketing functions. This channel is frequently used where the operation is on a small scale, large volume on a single product is possible, the product is highly specialized, the producer has a sales force, complete control over sales is desired, and adequate financial sources are available. Examples include a producer of raw materials selling to a manufacturer, a dairy selling cottage cheese to consumers at its factory sales room, or a farmer selling eggs to motorists from a roadside stand.

2) Producer - Retailer- Consumer

Examples here include producers selling directly to independently-owned retailers, affiliated chains, mail-order houses, and large department stores. The producer hopes to maintain a close touch with the market, enjoy the economies of selling only to relatively large buyers, meet private brand competition, promote sales aggressively, reduce fashion risk, and minimize losses, particularly if the produce is perishable.



However, use of this channel requires a sizeable sales force on the part of the producer, the number of accounts handled is increased, credit extensions may reach large amounts and transportation and packing costs may be relatively high because of smaller quantities ordered.

### 3) Producer - Wholesaler - Retailer - Consumer

This channel is followed by many producers of such items as groceries, drugs and dry goods products. To a small degree, the wholesaler may sell directly to the consumer. Among the advantages in use of this channel are more complete outlet coverage, low selling cost to producer (since wholesaler can distribute his costs over many items), small selling force required to call upon wholesalers, lower producers' capital required for marketing activities, and minimum transportation costs per unit sold.

Weaknesses of this channel include requests by wholesalers for exclusive distributive rights in their respective areas, wholesalers' dislike of manufacturer selling directly to chains, necessity of the manufacturer having missionary salesmen to promote the product in the market, and belief by manufacturer that his product should be sold far more aggressively by the wholesaler.

### 4) Producer - Special Middleman (functional and agent) - Wholesaler - Retailer - Consumer

The use of special middlemen is customary in many marketing processes. They are usually paid on a percentage-of-fixed-fee basis, and do not take title to the goods. They buy and sell for others



or act in a capacity to bring buyer and seller together. Some act on a continuous basis for a seller, others on a job-to-job basis. In numerous instances, the middleman operates between the producer and the retailer thus eliminating the wholesaler from the channel. For industrial goods, the use of the producer to middleman to consumer channel is common; in some instances, an industrial distributor is also added to the channel.

The most obvious advantages of this channel are that it is easily adaptable for differential use in different territories, the seller maintains control with the sales burden carried by others, field selling costs are in proportion to results accomplished, the seller need not be well known or possess a popular brand, specialized knowledge required in selling is supplied, and the seller has representatives handling his line only.

There are certain disadvantages in using this channel: continuity of representation is frequently lost and complete dependence upon individuals, not an essential part of the seller's organization, exists.

To show a list of all possible channels of marketing would confuse rather than clarify. However, it is well to keep in mind that an almost infinite number of variations to the above-mentioned types is possible.

#### Factors Affecting Choice of Channel

There is no one best channel for all product classifications. The seller usually has several different channels of distribution



available to him. His choice depends upon a number of factors:<sup>1</sup>

1) Nature of Product

The nature of the product defines the type of demand and the characteristic buying habits that influence the channel choice.

2) Geographical Dispersion

Usually, the more concentrated the buyers, the more tendency to use few, if any, wholesalers, retailers, or middlemen. On the other hand, a wide dispersion of buyers frequently requires wholesalers, retailers, or middlemen who specialize in reaching these types of buyers.

3) Size of Purchase

Goods purchased in large unit orders or goods having a relatively high unit value commonly employ the most direct channel of distribution.

4) Size of Enterprise

For such reasons as economy, prestige, or control of market, a large manufacturer might desire to market through its own wholesale branch houses and retail stores, whereas such a decision is not feasible for a small producer.

5) Financial Position of Seller

The shortening of marketing channels, the assumption of marketing risks, and the maintenance of an extensive sales organization

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<sup>1</sup>George R. Terry, Marketing, Selected Case Problems (New York: Prentice Hall, 1950), p. 61.



necessitate large outlays of capital. The seller who is not in a position to assume these financial burdens must use existent wholesalers, retailers, or middlemen who provide such financial services.

#### 6) Promotion and Service Requirements

The seller may feel that his product requires specialized selling ability and enthusiasm to achieve a satisfactory sales volume. Channels may be selected with this thought in mind or new channels may be adopted for the same reasons. When technical sales services are required to sell a product, it is generally considered advantageous to have as few intermediaries as possible between the manufacturer and the consumer.

#### 7) Ability and Preference of Selling Personnel

The choice of distributive channels is influenced to some extent by the preference of the marketing executives. The choice may simply reflect the wishes of the owner responsible for the production of the product, or it may be the result of many circumstances under which the producer has grown and developed.

### Dual Channels of Distribution

Dual channels of distribution is a strategy which is widely used by manufacturers because dependence on two channels rather than on one promises greater long-run profits. The profits accrue from the peculiar adaptability of two channels of distribution to the market environment in which many firms operate.

Sometimes manufacturer use of direct as well as of independent wholesale channels represents an intermediate or transitional



stage in a continuing process which culminates in the complete displacement of one channel by another. In these cases, the manufacturer looks upon dual channels of distribution as a temporary strategy whose aim is either the circumvention of the wholesale channel, or conversely, the abandonment of direct sale in favour of complete reliance upon independent wholesale intermediaries.

Channel change is, however, not ordinarily rapid. The initial considerations which resist alteration in this sphere are the heavy investments of time and resources which manufacturers have sunk in their existing channels, and the magnitude of like investments required to build new paths through the structure of distribution. Hence, evolution into or away from dual channels is a long-term adjustment to the marketing environment.

Specifically, the use of both the direct and the wholesale channel by a manufacturer enables him to adapt to the variations of different market segments or different geographic areas with respect to:

- 1) the coverage and availability requirements of diverse kinds of reseller outlets and final users.

Manufacturers of convenience goods especially are concerned with the need to have their products carried by all retail stores in which consumers expect to find such items.

However, in the retail field, it is customary for large stores (or organizations of stores) to assume many of the wholesaling functions. Typically these stores purchase directly from the manufac-



turer in wholesale lots, thereby gaining the wholesale margin for themselves. Smaller stores who require less than wholesale lots generally are served through the wholesale channel.

In the industrial market, the number of users is less than is encountered in the consumer goods market. As well, they are usually more concentrated geographically. Hence, coverage requirements are less stringent.

Under such circumstances the economics of order size and buying habits of the industrial users probably explain the use of dual channels by manufacturers. The function of purchasing is one example. If in carloads, the chances of direct sale are better.

2) The provision of different kinds and amounts of promotional effort or the exercise of varying degrees of control over the selling process.

If competitive conditions are unusually severe or if a large amount of pioneering work must be done to gain a foothold in a new market, the manufacturer may use the direct channel, (possibly including the use of a specialized sales agency) to provide substantially more selling effort than the wholesale channel can deliver. Those products which are complex or technical in nature require specialized selling and service normally available only through direct sale. In some cases, for a product to reach full maturity (that is, approach full scale distribution), it requires the services of two distinct types of channels.

3) The adjustment of revenue and cost considerations to



the demand characteristics of the markets served.

This is simply providing more thorough coverage of the market available. Also, two channels may do the job more cheaply than one. This is accomplished by allowing the manufacturer to perform that portion of the total marketing task for which he is best qualified, and at the same time, allows the wholesale channel to perform that part of the job in which it is most effective.<sup>2</sup>

The survival and continued vitality of the wholesalers, despite persistent efforts to supplant them, attest to two significant facts:

- 1) the marketing services provided by the wholesaler are necessary, and
- 2) to a great extent, wholesalers have been able to cope with the changing demands of their customers.

Wholesaling, like other activities in marketing, is dynamic and is ever subject to change. The alterations that have taken place and that concern wholesalers are actually the reflection of evolutionary changes and developments taking place in the entire economy. Improved transportation, better packaging, growth of chain stores, rise of supermarkets, and the development of the mail order house may be cited as examples.

#### Main Types of Wholesalers

Wholesalers can be classified according to: (1) size; (2) territory covered; (3) ownership; and (4) type of goods or services ren-

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<sup>2</sup>Warshaw, Effective Selling Through Wholesalers, p. 8.



dered. Thus, wholesalers may be large, medium or small according to annual sales or number of customers; they may be national, regional or local; they may be independent, manufacturer-owned or chain store owned.

The fourth classification warrants fuller discussion. Service wholesalers are those who perform the complete marketing services of a wholesaler. They may be classified in turn as general merchandise wholesalers, general line wholesalers, and specialty wholesalers. The general merchandise wholesaler handles a number of unrelated lines or goods such as groceries, hardware, and furniture. The general line wholesaler confines his stocks to a few related (or, more commonly, one line of) products, such as groceries. The specialty wholesaler carries a limited number of items in any one line of goods.

Limited function wholesalers, as the name implies, provide limited services to their customers. Among the more important types are: (1) cash and carry who handle a limited line and do not extend credit or make deliveries; (2) wagon jobbers who generally carry limited assortments of fast-moving items, frequently of a perishable nature and typically sold on a cash basis by a salesman operating from a truck; and (3) drop shippers who handle bulky items such as lumber and coal purchased in carload lots, do not store products, solicit orders or take title and have goods shipped directly from producer to customer.<sup>3</sup> It should be noted that the preceding classifications are

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<sup>3</sup>George R. Terry, Marketing, Selected Case Problems, (New York: Prentice Hall, 1950), p. 86.



broad in nature and are intended only to suggest major types.<sup>4</sup>

### The Regular Wholesaler

According to one author, "The most important single type of wholesaling institution in the marketing structure in the United States is the wholesale merchant, who is oftentimes known as the regular wholesaler, service wholesaler, full-function wholesaler, or merely the wholesaler."<sup>5</sup> More will be said concerning the regular wholesaler's functions in the next chapter.

There are, then, many alternatives open to the manufacturer in distributing his products. PHC products manufacturers use, or have used, all of the channels described.

### Methodology

In order to determine future patterns of distribution, the writer has used two main sources of information. First, the available literature has been studied and useful material drawn from it.

Secondly, primary data have been gathered from knowledgeable persons in the industry. A short letter requesting certain information was sent to ten wholesalers in Ontario, Quebec and the Maritimes and to four in Western Canada. There are a number of reasons why such a small sample was used, and why a longer questionnaire was not used.

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<sup>4</sup>For more information see: T.N. Beckman, N.H. Engle and R. D. Buzzell, Wholesaling, (New York: The Ronald Press Company, 1959), p. 87.

<sup>5</sup>Ibid., p. 109.



1) The writer has had some experience in the industry in a family-owned firm. Wholesalers in Western Canada would not feel happy about answering questions posed by their immediate competition. Therefore, only three knowledgeable persons in the Company with which the writer is associated were consulted. The writer acknowledges the possible bias this could introduce into the analysis.

2) East of Winnipeg, ten to twelve persons were the maximum number which could be expected to reply. These people were chosen carefully as to their participation in the industry trade association (The Canadian Institute of Plumbing and Heating), which is currently considering the same problem as is this writer. There was no use sending a letter to persons who had not thought much about the problem beforehand.

3) From talking to various members of the industry, the writer determined that most persons did not appreciate answering formal questionnaires, but would prefer a short series of broad questions. The industry, being made up of only two hundred and fifty wholesalers, would require a large percentage return of those sampled. This would not be possible.

Possible biases could have been introduced because of the methodology. However, there was simply no other way to collect the necessary data, short of interviewing the persons themselves. The cost of this would be prohibitive. Possible biases include intentional misleading data because of the competitive aspect of the writer's company in the PHC industry.



Letters were also sent to four manufacturers, two of which have manufacturer-owned wholesale branches. A comparison of responses on the subject of the future of the independent would provide some insight into the problem.

Finally, some information was drawn from short informal interviews with knowledgeable persons in the writer's company, and from the writer's own personal experience.

A description of the functions of the regular wholesaler follows in Chapter III. The plumbing and heating wholesaler is discussed with reference to his functional activities dealing with the manufacturer, the retailer, and the consumer. As well, from time to time, the writer has drawn comparisons with other industries in Canada and in the United States.

Chapter IV contains a discussion of vertical market systems and their current state of development in industry generally. A description of the present state of the PHC industry in Canada is included. I have included at this point in the thesis a brief discussion of terms used in Chapter V; thus, the discussion includes a mention of the conglomerate, the Trade Association, the art of prefabrication, and the "Bath Shop" concept.

Chapter V contains a summary of questions asked and a condensation of the replies to them. An analysis of the responses to each question is included.

The conclusions of the writer and suggestions for further research conclude the thesis in Chapter VI.



## CHAPTER III

### A FUNCTIONAL ANALYSIS

As mentioned in Chapter I, one of the purposes of this thesis is to be of some use to the PHC industry. As the regular wholesaler operates between two parties - the manufacturer and the retailer - I will analyze in some detail the functions of the PHC wholesaler and his importance to each group.

While each wholesaler traditionally performed all of the functions summarized below, there has been a shifting of either part or all of some functions to the manufacturing or retailing levels. This will be further discussed in Chapter VI.

The functions are discussed in order of importance to the PHC wholesaler.

The points to be discussed below may be summarized as follows:<sup>1</sup>

- 1) What the regular wholesaler does for his customers:
  - a) assembles goods for them from many sources of supply;
  - b) maintains a reservoir of goods from which they can draw on short notice;
  - c) extends credit;
  - d) guarantees goods and adjusts complaints;

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<sup>1</sup>Beckman, T.N., N.H. Engle and R.D. Buzzell, Wholesaling, (New York: The Ronald Press Company, 1959), p. 127.



- e) renders advice and assistance of various kinds;
  - f) makes possible a faster inventory turnover;
  - g) makes deliveries;
  - h) buys for them in economical quantities;
  - i) anticipates their requirements;
- 2) What the regular wholesaler does for his suppliers:
- a) provides storage facilities and ready stocks near points of demand;
  - b) establishes and maintains connections with customers to whom he sells their goods;
  - c) cultivates his territory;
  - d) aids in stabilizing production;
  - e) plans distribution in his territory;

#### Assumed framework for analysis

Beckman, et al. outlines several assumptions that must be kept in mind as these functions are discussed:

First, for the retailer, it is assumed that most retailers operate on a small scale; that most stores must handle an assortment of merchandise from many manufacturers; and that most retailers have limited financial resources at their disposal.<sup>2</sup>

Characterizing the plumber and the mechanical contractor as retailers in the PHC industry, the above assumptions would certainly apply. Even the largest mechanical contractors are small in accepted terms for judging business size. Furthermore, the retailer does not maintain much of an inventory himself but purchases material as he requires it.

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<sup>2</sup>Ibid., p. 128.



An exception to this is the large retailer, such as the department store, who typically buys direct and operates on a huge scale.

Second, for the manufacturer, it is assumed that most plants operate on a small scale; that in most cases only a narrow line of products is manufactured; that financial resources must be devoted primarily to manufacturing; and that the products must be widely distributed through many retail outlets.<sup>3</sup>

In the PHC industry in Canada, there are two large, integrated plumbing supply companies, Crane (Canada) Ltd. and Emco Limited. Both maintain extensive manufacturing and wholesale outlets, but because of the necessity of wide market coverage, both use independent wholesalers.<sup>4</sup> Crane, for example, began in 1855 developing a formidable branch house system. By the end of World War I, the company had fifty-five branches, and by 1930, two hundred and ten branches.<sup>5</sup>

However, according to the recent experience of Crane Ltd., the largest manufacturer and distributor of plumbing and piping products in North America, the independent wholesaler is far from finished. T. M. Evans, Chairman of the Board at Crane, notes that "During the early 1900's with its slow travel and lack of independent wholesalers to effectively cover the country, company-owned branches seemed logical. That certainly isn't true today. A well-structured, independent wholesaler organization can sell every neighborhood and hamlet in the country."<sup>6</sup>

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<sup>3</sup>Ibid., p. 128.

<sup>4</sup>"How Crane Found the Key to Profitable Distribution," Sales Management, 84, (March 18, 1960), p. 124.

<sup>5</sup>Ibid., p. 124.

<sup>6</sup>Ibid., p. 126.



His feeling is that the local man knows his market--knows how to get the business there, and knows the best financing channels. Furthermore, Crane feels that its primary business is manufacturing and not distribution.

There is, of course, a problem in finding the proper wholesalers. The company feels that " . . . a strong independent can do a better job of profitably distributing Crane products in one area, while a company-owned branch might do a better job in another."<sup>7</sup>

Finally, it must be assumed that the wholesaler operates with a reasonable degree of efficiency. The validity of this assumption rests on the active competition of wholesalers with other channels of distribution.

#### How the Regular Wholesaler Services his Customers

##### 1) Assembles Goods

The marketing process ". . . begins with conglomerate resources in the natural state and ends with meaningful assortments in the hands of consumers."<sup>8</sup>

"In the perfectly heterogeneous market, each small segment of demand can be satisfied by just one unique segment of supply. The function of the market is to match these different segments of demand with the corresponding segments of supply. The market is cleared when the matching is completed and each segment of demand has been satisfied."<sup>9</sup>

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<sup>7</sup> Ibid., p. 126.

<sup>8</sup> Alderson, Wroe, Dynamic Marketing Behaviour, (Homewood, Illinois: Richard D. Irwin, Inc., 1965) p. 26.

<sup>9</sup> Ibid., p. 29



This is, of course, overly simplified. Rarely, if ever, are markets in the real world totally cleared.

While the PHC wholesaler may perform all or some of the functions described in this chapter, the basic function he performs is that of sorting.

" . . . sorting is the decision aspect of marketing whether seen from the standpoint of the supplier or the consumer. The supplier assigns items to classes which are to be treated in different ways thereafter. The consumer selects an item into her assortment in relation to what the assortment already contains."<sup>10</sup>

"The assignment or selection which constitutes the act of sorting is always made with reference to some collection, or set, of goods. The farmer starts with a mixed lot of produce and sorts out the saleable from the unsaleable items. The central market assembles, or accumulates, goods of like grade and quality for convenience in distribution. The next step of distribution or dispersal to the ultimate market involves allocation of goods . . . Finally, there is the characteristic action of the buyer of putting unlike things together to form an assortment. The name for this aspect of sorting is assorting."<sup>11</sup>

The following table shows the relationship among the four aspects of sorting:<sup>12</sup>

	<u>Breaking Down</u>	<u>Building Up</u>
Heterogeneous Collections	Sorting Out	Assorting
Homogeneous Collections	Allocating	Accumulation

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<sup>10</sup>Ibid., p. 34.

<sup>11</sup>Ibid., p. 34.

<sup>12</sup>Ibid., p. 5.



In the PHC business, the wholesaler breaks down a heterogeneous collection into more homogeneous groups. He also breaks down a homogeneous supply into smaller lots.

The collection which is the result is a building up process. In the act of assorting, the wholesaler builds up a heterogeneous collection or assortment. For example, simple installation of a basin requires the basin itself, water supply, fittings, taps, solder, flux, etc., all from different manufacturers.

In the act of accumulation, the sorter builds up a homogeneous collection, or aggregated supply. (For example, pipe in various lengths and diameters).

Of principal importance to the above discussion is the concept of searching.

"Searching is a form of pre-sorting which can be carried out without the necessity of performing a physical sort."<sup>13</sup>

Searching locates items which belong in specific classifications. The wholesaler locates a number of manufacturers who supply a given product. From comparisons of price, quality, or any other pertinent factors, a decision is made on whether or not to handle the product (i.e., the sorting process).

While the PHC wholesaler searches for goods available from his suppliers, he also searches for customers to buy his goods. "The double search is fundamental to the whole process. The supplier deve-

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<sup>13</sup>Ibid., p. 36



lops more elaborate search methods than would be possible for the individual consumer."<sup>14</sup>

The large retailer can still be a thorn in the side of the wholesaler, however. Search methods of large retailers can be skillful and thorough.

This function is without question extremely important to the PHC wholesaler, as will be discussed in Chapter VI.

The manager of an Edmonton PHC wholesale supply house estimated total suppliers in Canada of plumbing, heating and related products at two thousand. His branch regularly maintained five to six hundred active charge accounts.

Furthermore, manufacturing is concentrated in Eastern Canada and the United States. Unless the retailer wishes to perform the functions of assembling and stocking merchandise, direct purchase by retailers is clearly impractical.

"Direct buying would necessitate the establishment of direct contact with thousands of manufacturers in order to select several hundred of them as regular sources of supply."<sup>15</sup>

## 2) Maintains a Reservoir of Goods

The storage function is a very important function the PHC wholesaler performs. Firstly, he maintains a complete assortment and volume of both regular and emergency goods that can be tapped by

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<sup>14</sup>Ibid., p. 37

<sup>15</sup>Beckman, et al., p. 134.



his customers on short notice. Reserve stock enables his customers to keep their inventory investment to a minimum. Not only do they avoid expensive storage facilities, but the risk of the retailer being stuck with obsolete or overpriced stock is virtually nil.

"Because of the scale of his operations, the wholesaler can operate economically a warehouse which is flexible, not only from the standpoint of changing seasonal requirements, but also with regard to the special requirements involved in the storage of certain kinds of goods."<sup>16</sup>

Some observers have felt that, with proper timing, bulky items such as furnaces and bathroom fixtures could be purchased directly by the contractor. This is, however, very difficult. While the contractor can often determine approximately when he will need certain products, rarely does he employ personnel in sufficient numbers to install everything quickly. Hence, there is always some form of handling and storage necessary. On-site theft and damage can be tremendous even over a short period of time. Furthermore, the products usually are delivered by the wholesaler to the job. Again, because he is a specialist in his field, the wholesaler can generally do it cheaper than could the contractor or manufacturer.

### 3) Extends Credit

Extension of credit furnishes a much-needed form of financial assistance to his customers. Very few PHC wholesalers operate strictly on a cash and carry basis.

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<sup>16</sup>Ibid., p. 134.



The credit function can be costly, however, and bad debts to a company making one to two percent on sales can be disastrous.

In the absence of the wholesaler, there is no doubt that some credit would be extended to plumbing contractors by the manufacturer. However, a large number of plumbing contractors would be refused credit, partly because of low volume of purchases, and because of the distance separating buyer and seller. Securing necessary credit information, keeping in touch with local situations, and collecting accounts over a long distance would be extremely difficult, if not impossible. The wholesaler's proximity to the trade makes it possible for him to perform the credit function with a minimum of expense and effort. Rather than establishing his credit with several hundred manufacturers, the plumbing contractor need only establish it with a few suppliers in his area.

#### 4) Guarantees the Goods and Adjusts Complaints

The wholesaler will usually guarantee the quality of the merchandise he sells. "The retailer depends upon the wholesaler's ability to measure the quality of the goods and to investigate the guarantee made by the manufacturers."<sup>17</sup>

This service is very important where the merchandise is of a technical or mechanical nature. The wholesaler becomes quite familiar with the problems of the plumbing contractor and knows the best way to handle them. The PHC wholesaler will "collect" damaged or defective

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<sup>17</sup>Ibid., p. 138.



goods for claim to either the manufacturer or common carrier. As well, he will explain the terms of guarantees to the retailer or to the retailer's customer, if need be.

#### 5) Advice and Assistance to Customers

In the PHC industry, the success of the wholesaler often depends directly on the success of his customers. Hence, often the wholesaler will devote a great deal of time and intelligence to building up the retailer.

For example, the PHC wholesaler concentrates his extra services on quotations, engineering advice and job scheduling.

Manufacturers also develop many merchandising, installation and service techniques for their products and use the wholesaler as a communications link in passing them on.

#### 6) Makes Possible a Faster Retail Stock Turnover

"The speedy delivery of a large assortment of carefully selected and reasonably-priced merchandise by the wholesaler makes possible a more rapid rate of stock turnover for the retailer."<sup>18</sup> Most plumbers can therefore operate with a minimum of stock, and they can immediately obtain any item needed from the wholesaler. There are usually six or seven major supply houses to choose from, and each carries certain "specialty" lines. Hence, there are very few products a plumber cannot obtain on short notice from someone. Furthermore, the wholesaler is willing to order any merchandise not stocked and has the knowledge of where to obtain these goods.

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<sup>18</sup>Ibid., p. 136.



# 7) Delivers Goods Promptly

A plumbing retailer can get his orders filled and delivered by most wholesalers on the same day they are received. If he is any distance away, say at a country point, the goods are normally shipped the same day.

"Prompt delivery service rendered by wholesalers is responsible to no small degree for their success . . . "19

Interestingly, the PHC wholesalers in the cities of Regina and Vancouver do not perform the delivery function as completely as do other major centers in Western Canada. Wholesalers in Winnipeg, Saskatoon, Edmonton and Calgary deliver most goods requested by their customers. While observers have suggested reasons of geographic size and complexity of the area as determinants of whether or not to perform this function, this writer feels that a more realistic reason is the local competitive situation. As long as customers are satisfied with picking up orders, there is really no reason to add an additional and costly service function.

# 8) Large Scale Purchasing

This is a function of the wholesaler closely related to assembling. "Large scale buying enables the wholesaler to effect economies which the forces of competition compel him to pass on to the retailer. . . in the form of reasonable prices, considering the services rendered."20

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<sup>19</sup>Ibid., p. 135.

<sup>20</sup>Ibid., p. 133.



Characteristically, in the PHC industry, few products are bought in huge quantities (i.e., carloads). Those that are all have the common characteristics of being low mark-up, high turnover, bulky goods. A wholesaler with a number of branches naturally has a competitive advantage over one who is limited to one or two branches. Purchase price economies often take the form of "rebates" at year-end. Very often the manufacturer will establish a minimum order quantity for a given period of time, and grant rebates on an increasing scale after this quantity is surpassed. Freight economies are realized as well, in that carload rates may be substantially below LCL rates in cost per unit.

#### 9) Anticipates their Requirements

"One of the first functions of the wholesaler is to anticipate his customers' requirements and be ready at all times to fill their needs."<sup>21</sup> In essence, this is simply having the right merchandise at the right time, at the right price and in the right amounts.

Anticipating requirements is a continuing process, the wholesaler theoretically at least providing the communications link between retailer and manufacturer.

Some wholesalers have expressed great concern about the inroads that chainstores, lumber yards and other outsiders were making into the plumbing and heating market.<sup>22</sup> Their success has been attributed to the weight and skill of their merchandising in all of its

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<sup>21</sup>Ibid., p. 129.

<sup>22</sup>"McDonald's Merchandising Concepts," Supply House Times VII, December 1964, p. 77.



ramifications: display, advertising, location, store traffic, payment plans, etc.<sup>23</sup>

Because the plumber would rather have his merchandising done for him, some PHC wholesalers have developed expensive and tasteful showrooms in an effort to stimulate consumer demand.

Many variations in this type of merchandising are being utilized. Economy Supply of Wisconsin, for example, has a unique idea in the industry. No one may enter their showroom unless accompanied by a master plumber. And no master plumber can get in unless he buys a key for \$150. In fact, it is called the ESCO Key Club Showroom.<sup>24</sup>

Shirley-Onstad Company, located in Fargo, North Dakota, handles in their "living center", draperies, carpeting, objects d'art, fireplace equipment, boutique items, lighting fixtures and a modern art gallery.<sup>25</sup> The success of this operation is demonstrated by the fact that since the "living center" has been open (July 1967) between 25 and 30 people a day visit it, and the company reports fully 90 percent are buyers. Fargo, N. D., is a small city of 50,000 persons.

Unfortunately, some Canadian wholesalers have been reluctant to adapt to these new developments. There are practically no showrooms in Eastern Canada at all, and very few in the West.

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<sup>23</sup> Ibid., p. 78.

<sup>24</sup> "Economy Launches New Showroom Concept", Supply House Times VI, January 1964, p. 28.

<sup>25</sup> John Ernst, Jr., "Shirley-Onstad's New Living Center", Supply House Times, X, February 1968, p. 38.



To fill this gap in the East, there has evolved in the past few years "the bath shop concept", where individuals may purchase practically any item befitting the bathroom at retail prices and have it installed should this be necessary. More will be mentioned concerning this phenomenon in Chapters IV, V, and VI.

Closer to home, the Canadian Institute of Plumbing and Heating launched in 1963 the very successful Award Home Program.<sup>26</sup> "This program is designed to increase and upgrade sales of plumbing and heating equipment by influencing the real source of these sales--the public and the builders that provide homes for them. It is an entirely Canadian campaign keyed to this country's special problems."<sup>27</sup>

"The need for such an effort has been increasingly evident in the past few years . . . wholesaler profit margins have dropped substantially in many parts of the country. If allowed to continue unchecked, this situation would lead to all-out price wars, wholesaler bankruptcies, and eventually to a manufacturer crisis as well."<sup>28</sup>

Some plumbing contractors feel that the entrance of wholesalers and manufacturers into the retail market has harmed them. However, as will be further discussed in Chapter IV, retailing operations typically use licensed plumbers to install the product. Furthermore, because the retail shop is a merchandiser, sales are often upgraded thereby benefitting all parties concerned, including the consumer.

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<sup>27</sup>Ibid., p. 34.

<sup>28</sup>Ibid., p. 34.



### How the Regular Wholesaler Services his Suppliers

#### 1) Provides Storage for the Manufacturer

While the writer has discussed the advantages of the wholesaler providing storage for the retailer, he also renders a valuable service to the manufacturer; namely, that of enabling the manufacturer to transfer the storage function to the wholesaler. The wholesaler can generally utilize a given amount of storage space, labour and equipment to greater advantage than can the manufacturer. Of course, any manufacturer with ample financial resources can establish his own warehouses when and where he chooses.

#### 2) Establishes and Maintains Connections with Customers and Sells to Them

An established wholesaler provides the manufacturer with a clientele of relatively permanent customers. He does this through his own sales force. The typical PHC wholesaler of the 1940's and early 1950's did not put much emphasis on the sales function. This was due to market conditions at the time. "In the residential plumbing market . . . the contractor has more technical knowledge than the salesman."<sup>29</sup> However, as the market in Western Canada developed, the principal customer of the PHC wholesaler changed from the "plumber" to the "contractor". This person was concerned more with the mechanics of big buildings, apartments, schools and office buildings. New products began to enter the market in greater quantities than ever before. The sales function

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<sup>29</sup>Unger, "Cash and Carry", p. 64.



began to take on more and more importance. Increased competition forced the use of a better-trained sales force. As wholesalers became more interested in the large contractor market, price cutting became the rule rather than the exception. Quicker communications became necessary between the wholesaler and customer.

At the present time, most observers feel one of the central problems the PHC wholesaler must solve in the very near future is development of a stronger sales force. "Order-takers," as one spokesman called his sales force, are no longer sufficient.

Very often specialist help comes from the manufacturer's agent. As mentioned, in designing commercial hot water heating systems, the manufacturer's agent will design and quote the whole system. The wholesaler then adds his markup to the quote, and submits it for bid. If he gets the job, he then performs the regular functions of storage, assembly, credit, etc.

Some PHC wholesalers do not feel this method is adequate. In Edmonton, one wholesaler this writer interviewed mentioned many jobs he had lost because the manufacturer's agent just couldn't handle all the work. Hence, this wholesaler is now in the process of developing an in-house specialist in this area.

Because of the wholesaler's general reluctance in the past to sell intensively, the manufacturer often makes use of his agent as a missionary salesman. That is to say, certain retail customers are cultivated directly by this person. Some by-passing of the PHC wholesaler occurs at this point.



### 3) Cultivates the Field Intensively

Because of the geographic dispersion of the plumbing retailer, it is physically impossible for the manufacturer's salesman to cover him adequately. In country sales alone, the PHC wholesaler may do 25 to 35 percent of his total business. He is by far in the best position to judge the optimum frequency of calls to these points. The city trade is widely dispersed also, and may include thousands of outlets.

"As long as great distances separate manufacturers and retailers, as long as many manufacturers are relatively small-scale operators and produce a limited line of merchandise, as long as many retailers are located in small communities and in otherwise inaccessible places, and as long as large numbers of retailers operate on a small scale and buy in very small quantities, so long will wholesalers be an indispensable medium for translating concentrated production into widely diffused retail distribution."<sup>30</sup>

### 4) Aids in Stabilizing Production

I will not dwell on this function as I think the advantages of stable production schedules are obvious. Suffice it to say that the PHC wholesaler can generally communicate to the manufacturer his needs for the year, the times he will need the product, and the quantities.

Further, " . . . in critical times, the manufacturer who sells through wholesalers does not feel the curtailment as sharply as

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<sup>30</sup>Beckman, et al., p. 145.



if he sold directly to retailers. In other words, the wholesaler acts as a shock-absorber, and the producer has additional time to make adjustments."<sup>31</sup>

#### 5) Plans Distribution in his Territory

According to Beckman, accurate market analysis could be a problem were it not for the wholesaler.<sup>32</sup> While this statement is true to some extent, most PHC wholesalers are not too concerned with comprehensive market analysis. However, in the field of sales forecasting he must plan ahead, and can and does communicate this information to the manufacturer.

Furthermore, in an informal way he receives the bulk of complaints should a product not be performing up to expectations. PHC wholesalers pass on this information rapidly to the manufacturer in most instances.

The wholesaler theoretically attempts to channel the proper merchandise to the proper locale for the manufacturer. "Unfortunately, the typical wholesaler, although in a position to appraise the market scientifically and accurately, has not taken full advantage of his opportunities. His neglect of modern techniques of marketing research has been one of the contributing causes of his unpopularity with manufacturers."<sup>33</sup>

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<sup>31</sup>Ibid., p. 146.

<sup>32</sup>Ibid., p. 142.

<sup>33</sup>Ibid., p. 142.



It has been suggested by industry observers that if a manufacturer does own his own wholesale outlet, he must be able to operate this outlet profitably. That is to say, the wholesale outlet must provide an adequate return on investment.

At this point, it is pertinent to note the concept of vertical marketing systems does not fit well into the Theory of the Firm. Costs are allocated differently in an integrated company, and for tax or any number of other reasons, it may be advantageous to show little or no profit from one sector of the firm.

Therefore, it may be erroneous to assume that manufacturers who own their own wholesale outlets must operate this outlet on a profitable basis.



## CHAPTER IV

### EMERGING PATTERNS OF DISTRIBUTION

#### The PHC Industry in Canada

Within the confines of this thesis, it is difficult to give more than an impressionistic picture of a major industry in a big country. Therefore, the writer hopes the reader will be tolerant of any shortcomings in this account.

From a marketing standpoint, Canada divides into five basic regions, each with its own distinct characteristics and considerable differences - British Columbia, The Prairie Provinces, Ontario, Quebec and the Maritime Provinces.

The writer has included in the appendix a summary of national averages of expenses and profits as percentages of net sales for 1966 and 1967. Also included in the appendix are similar figures for the Maritime Provinces, Quebec, Ontario, the Prairie Provinces and British Columbia.

Generally, the financial health of the wholesaler in the PHC industry is deteriorating. However, in order to discuss his health, we need a vantage point from which to look objectively.

Relatively speaking, the plumbing and heating industry in Canada very closely parallels that of the United States. Business environments are quite similar in the two countries, with corporate income taxes between 50 and 53 percent, and the Central Mortgage and Housing Corporation being much like the United States' Federal Housing Authority.



The wholesaler sells the same products, often under the same brand names as in the United States. He performs the same services and has the same problems of excess competition and declining profitability.

In Chicago, there is an organization called the Manufacturers Clearing House of Illinois, sponsored by manufacturers, which for purposes of brevity will be referred to as MCH in this thesis. "It is their sole business purpose to keep widely informed on the financial health of more than 4,600 plumbing and heating wholesalers in all 50 states."<sup>1</sup>

The information the MCH uses comes from two sources: the wholesalers themselves, who provide basic facts about their corporation plus recent financial statements; and the manufacturers, who provide the wholesalers' paying records.

While the following information was obtained from the American PHC industry, industry observers<sup>2</sup> feel it is generally applicable to the Canadian scene as well.

The following information was obtained from an article in the Supply House Times which presented a tape-recorded interview with William Nagel, President of the MCH.

The first question concerned the "state of the Union" or rather the general health of the PHC wholesalers, as they headed into 1964.

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<sup>1</sup>Robert Taylor, "Financial Health of the PHC Wholesaler", Supply House Times, VI, February 1964, p. 45.

<sup>2</sup>Ibid., p. 46.



There are generally two extremes to this question. At one end of the continuum we find the view of continuous profit shrinkage. Wholesalers maintain it is becoming more and more difficult to make a "decent profit". Conversely, some wholesalers--but more usually contractors and suppliers--say that wholesalers are "crying poor, but living rich". This viewpoint maintains that complaining is part of the wholesaler's nature; that he does it to throw those who would tamper with his profits off the track.

In reply to this question, Nagel said:

Statistics show that 1963 continued a trend which began immediately after World War II--the diminishing of the wholesalers' ability to pay their bills on time. This has been at the rate of 0.6 percent per year. In January 1946, 98.42 percent of all manufacturers' invoices to wholesalers were being paid within the terms of sale. In January of 1964, 87.5 percent were being paid within the terms.

As you look at these figures, you see a steady constriction of the wholesaler's ability to pay his bills, which is a relatively accurate gauge of his financial health.<sup>3</sup>

General terms in the industry in Canada at present are 30 days, which may or may not include a discount for prompt payment. In substantiating Nagel's claim, interviews revealed that where discounts are offered (generally 2 to 3 percent) for prompt payment, they are taken advantage of. Thirty day invoices are generally paid when due to allow the company to maintain a good credit rating. However, the wholesalers interviewed revealed that there is a trend well established in the industry to "dating". That is to say, special arrangements are made with the supplier to pay for purchases in 60, 90, or 120 days from date

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<sup>3</sup>Taylor, Financial Health, p. 46.



invoiced. In return for these privileges, the wholesaler agrees to buy a specific amount of goods.

When a business operates at levels of 1 to 2 percent profit on sales or less, and characteristically turns over a tremendous amount of material in a year, terms involving payables become critical indeed. For example, one industry leader commented that various large manufacturers had decided to forego 2 percent discounts for prompt payment. One does not have to be a mathematical wizard to determine the devastating effect this could have on the individual wholesaler. Manufacturers, have however, apparently been persuaded not to pursue this line of thinking for the present. Most persons interviewed seemed to feel that pricing adjustments would have to be made if manufacturers plan to introduce this policy in the future.

In analyzing the financial condition of the industry, we must look at other considerations over and above payments to creditors. For example, poor location due to lack of market analysis, or due to market shifting can hurt not only the business concerned but the industry as a whole. Consider, for example, the cities of Edmonton and Winnipeg. One plumbing and heating wholesaler is currently adding space to his warehouse in Edmonton because of the huge demand built up in the last two years. This is an addition to a building not yet three years old. Previous to this, the company was located just north of downtown Edmonton in an old building which was too small at that time for existing business. For one reason or another, future market conditions were not forecasted accurately and hence, "extra" building costs over and



above "normal" were incurred.

Conversely, in Winnipeg, plans are underway to build a new but smaller warehouse than presently exists, because management feels there is not much room for expansion in that area.

As Nagel says:

There is nothing wrong with rapid expansion per se. At the right time, and in the right place, it is safe and sound, even with a minimum of capital. The real trouble lies in expansion which is ill thought out and poorly executed. Then it is not the fact of expansion, but rather the method that is to blame.<sup>4</sup>

Other problems include misuse of capital, such as building expensive offices when cheaper ones could be purchased or rented; and "piling all your eggs in one basket". For example, many wholesalers allow themselves to become enamoured with one or two large accounts. It is not at all unusual in the PHC industry for large contractors to fail, taking a myriad of businesses with them.

Another problem prevalent in this industry concerns ownership. Many wholesalers are independently owned and operated. Industry spokesmen feel that this is a detriment to the company itself because, they feel, it is more difficult to attract outside funds than it would be in a publicly-owned company. This problem is further complicated when we realize that in many "family-owned" companies, the money is just not there to buy out retiring or deceased shareholders. If what surplus that is available is used for this purpose, it leaves little to "plow" back into the company for expansion, be it in terms

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<sup>4</sup>Taylor, Financial Health, p. 52.



of inventory, fixed assets, or wages.

Many of the problems outlined previously are not unique to the wholesaling business, nor to the PHC business. However, all play an important role in survival for the industry and suggest basic policies a business must adopt in order to survive.

### The Canadian Institute of Plumbing and Heating

As mentioned, all industries have certain problems within. While many problems seem to remain unsolved, there is often in each industry an organization whose prime purpose is to analyze and suggest solutions to member firms. This is commonly known as the Trade Association, and in the PHC industry is called The Canadian Institute of Plumbing and Heating (hereafter referred to as the CIPH).

The CIPH was founded in 1933. Besides serving as a link between manufacturer and wholesaler, it is also an effective line of communication with the Federal Government. It is extremely important that communication leads to mutual understanding and solution of government and industry problems.

Promotions affecting one or more segments of its membership are another important function of the CIPH. In addition to the Award Home Program mentioned in Chapter III, the CIPH has established the Sales Development Council or SDC, whose purpose is to foster good salesmanship in the industry.

"Almost missionary in its concept, SDC first 'trains the trainers' (representatives of member firms). These men are then sent back to their home locations to pass on the basic principles and tech-



niques of effective salesmanship to others at the wholesale and retail levels in their local industry community."<sup>5</sup>

CIPH has also organized the Business Management Institute (BMI), a course which provides intensive training in management control practices. This course is offered each year at the University of Western Ontario and is conducted by Professors W. G. McDougall, J. B. Washington, and B. Little of Western, and J. G. Preston of Boston University. In May of 1969, twenty-three students from fourteen member companies were graduated.<sup>6</sup>

The CIPH also works closely with the Canadian Standards Association--the major testing body in Canada--towards determining or revising plumbing and heating standards that can applied across the country.

The Institute's annual budget, about \$130,000, is gathered from wholesaler and manufacturer members in varying proportions, depending on annual sales volume.

The general reaction to the CIPH among the PHC wholesalers and manufacturers in Canada seems to be one of increasing enthusiasm and support. One complaint found by this writer in Western Canada seems to be that of a feeling of "being left out". With the greatest number of members being located in Southern Ontario and Quebec, control tends to be centered in those areas.

In order to overcome this problem, plans are currently

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<sup>5</sup>Fanning, Award Home Promotion, p. 123.

<sup>6</sup>Heating, Plumbing, Air Conditioning, June 9, 1969, p. 2.



underway to decentralize the CIPH into provincial regions. This project has just been initiated, however, and the writer has no information on its progress to date.

However, at the close of 1968, membership in the CIPH numbered 113, consisting of 49 manufacturers and 64 wholesalers in 506 locations throughout Canada.<sup>7</sup>

According to General Manager of the CIPH, G. Dixon, very few wholesalers or major manufacturers of PHC products in Canada do not belong to the Institute. This would be some indication of the representativeness of the CIPH as "the spokesman" for the industry.

The trade association exists, then, to provide service to members. The types and ranges of services provided depend on the desires and relative affluence of the membership.

As one would expect, future patterns of distribution are a major concern of the CIPH. Presently, there are two prime areas of concern to the CIPH, that of prefabrication and possibilities of vertical integration.

A short discussion on prefabrication follows immediately, and finally, aspects of vertical integration are discussed. The writer feels the latter of the two is most important for the PHC industry, and has included a discussion of one aspect of vertical integration, that is, the prospect of the wholesaler entering the retail field of business.

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<sup>7</sup>The Canadian Institute of Plumbing and Heating, Plumbing and Heating in Canada, 1968 Review, Montreal, 1968, p. 1.



### Prefabrication

Prefabrication is not a new development. As early as 1624, the English brought a panelized house of wood to Cape Ann for use by a fishing fleet and the house was subsequently disassembled, moved and re-assembled many times.<sup>8</sup>

Early in this century the "mail-order house" became popular on the frontiers. Sears, Roebuck Company claims it sold 100,000 houses in 40 years. "This was usually a precut house, but the production of these houses was important since it pioneered techniques for the production lines, standardization, and price packaging in the home manufacturing industry."<sup>9</sup>

At the present time, thousands of companies in the U.S. are participating in the prefabrication industry. These participants include mobile home manufacturers, sectionalized home manufacturers, home manufacturers, traditional builders using some preassembled components, on-site fabricators, component manufacturers, and building-material suppliers.<sup>10</sup>

There is little point discussing the above for purposes of this paper. Rather, the writer will attempt to outline how prefabrication

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<sup>8</sup> Battelle Memorial Institute, Columbus Laboratories, "Final Report on the State of the Art of Prefabrication in the Construction Industry to The Building and Construction Trades Department, AFL-CIO," Columbus, 1967, p. 15. (mimeographed)

<sup>9</sup> Ibid., p. 15.

<sup>10</sup> Ibid., p. 15.



tion is affecting and is likely to affect the plumbing and heating wholesaler.

The 'traditional' method of construction was quite popular prior to World War II and was used for both residential and non-residential type structures. All the work is performed on the site, with no preassembled components being used.

The combination of rising labor cost, increased demand, and the increasing role of the component manufacturer has caused a rapid decline in the use of the traditional method during the past decade. Currently, only a few builders use this method and they are scattered around the country in the less populated areas.

During the next decade, Battelle feels that this method will become virtually extinct, leaving only two methods of construction that are applicable to the entire building process. The impetus for this change will be: (1) rising labor cost, (2) larger and more efficient builders will start to dominate the industry, and (3) manufacturers will continue to become more efficient and offer larger multifunctional components at less cost than those achieved by using on-site labor.

As a result of these changes, builders currently using this method will probably have two alternatives to consider: (1) use rationalized traditional methods, or (2) quit the building business.<sup>11</sup>

The rationalized traditional method merely implies the use of some preassembled components with the traditional method of construction.

In relation to the plumbing and heating industry, then, the tremendous pressure to reduce on-site labor means "unitized" bathrooms and kitchens at the very least. "No matter how much the trades resist

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<sup>11</sup>Ibid., p. 93.



it, or the codes restrict it, this factory packaging is bound to grow and the advent of plastics will speed the process!"<sup>12</sup>

In the past, the market was almost entirely a matter of local wholesalers supplying local plumbing and heating contractors working for local builders. Some observers have suggested the plumbing wholesalers are not maintaining their place in this revolution. Rather, as a group, they seem to be ignoring it, hoping it will go away.

This development does not necessarily leave the wholesaler shut out. "Though there will probably be some concentration of the factory-built housing industry in the future, today it is highly fragmented with several hundred producers, many of them making only four or five units a week . . . the industry is widely scattered and probably always will be regional."<sup>13</sup>

"The typical producer does not have the volume or capital to buy direct, or the space to store inventory. He needs the services of a wholesaler, and a number of plumbing wholesalers have developed a good business serving his needs."<sup>14</sup>

Prefabrication, then, could have a tremendous effect on the marketing policies of both the manufacturer and the wholesaler. The wholesaler would do well to seriously explore the effect of this phenomenon on his business in the future.

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<sup>12</sup>Editorial, Supply House Times, October 1968, p. 130

<sup>13</sup>Ibid., p. 130.

<sup>14</sup>Ibid., p. 130.



The CIPH will, no doubt, be instrumental in the gathering and dispensation of data concerning this aspect of distribution.

### The Vertical Market System

Some observers<sup>15</sup> feel that the decisive development in the American economy at the present time is the growing importance of vertical marketing systems in most lines of trade.

Historically, goods and services in the American and Canadian economies . . .

. . . have been distributed through highly fragmented networks in which loosely aligned manufacturers, wholesalers, and retailers bargained aggressively with each other over price, severed trade relationships with impunity, and otherwise behaved autonomously. Furthermore, most of the firms included in these conventional marketing channels have operated at a relatively small scale and performed a prescribed--but often uneconomic--set of functions.<sup>16</sup>

In the conventional marketing channel, each layer of activity is clearly separated from the others. That is to say, manufacturing organizations traditionally performed the functions of product research and development, mass media advertising and distribution programming. Wholesalers performed the functions essentially outlined in Chapter III. Retailers performed a particular set of functions in promotion and physical distribution that were clearly differentiated from those performed by wholesaler and manufacturer.

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<sup>15</sup> McCammon et al., Emerging Patterns of Distribution, p. 1

<sup>16</sup> Ibid., p. 2.



The resulting concept of role separation was further reinforced in two ways. First, separate ownerships were involved at successive levels of the distribution process. Second, trade moves discouraged firms from performing functions historically reserved for other types of enterprises. (It was considered improper, for example, for wholesalers to engage in either retailing or manufacturing activities.)<sup>17</sup>

According to McCammon et al., ". . . the concept of functional shiftability has replaced the concept of role separation."<sup>18</sup> Hence, ". . . functions historically performed by one type of firm have been shifted to another type because the latter can perform the delegated function at a lower cost per unit."<sup>19</sup>

Conventional marketing channels, then, seem to be becoming economic anachronisms.

"Clearly, significant economies can be effected by repositioning, integrating, and synchronizing marketing flows from points of production to points of use--and at the present time, vertical marketing systems are the mechanisms used to achieve this goal."<sup>20</sup>

#### Types of Vertical Marketing Systems

Vertical marketing systems, then, may be defined as ". . . professionally managed and centrally programmed networks that are pre-engineered to achieve significant operating economies and maximum market impact. Stated alternatively, vertical marketing systems are

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<sup>17</sup>Ibid., p. 2.

<sup>18</sup>Ibid., p. 3

<sup>19</sup>Ibid., p. 3.

<sup>20</sup>Ibid., p. 3.



rationalized and capital intensive networks that are programmed to realize technological, managerial, and promotional economies."<sup>21</sup>

There are essentially three types of vertical marketing systems. Following is a short definition and explanation of each. The future implication of each to the PHC industry will be discussed in the following chapter.

### Corporate Systems

The corporate system is in essence the vertically integrated corporation. Vertically integrated corporations are, of course, not a recent phenomenon. Singer and Sears, for example, both had integrated manufacturing facilities, wholesale outlets, and retail stores as early as the late 1800's.

However, " . . . despite these early precedents, vertically integrated corporations did not become a decisive or pivotal factor in distribution until the mid-1950's. Since that time, they have experienced rapid growth, and today many distribution networks are partially or fully integrated corporated complexes."<sup>22</sup>

In the United States,

Sherwin Williams . . . now operates over 2,000 retail outlets; Hart Schaffner and Marx owns more than 200 stores . . . large food chains now obtain 15 to 20 percent of their requirements from company-owned manufacturing and processing facilities; Sears reportedly obtains 50 percent of its throughput from manufacturing facilities in which it has an

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<sup>21</sup>Ibid., p. 3.

<sup>22</sup>Ibid., p. 4.



equity interest, and Holiday Inns is rapidly evolving into a self-supply network that includes a carpet mill, furniture manufacturing plant, and numerous captive redistribution facilities. In short, these and other organizations are massive, vertically integrated systems. To describe such organizations as 'retailers', as 'manufacturers', or as 'motel operators' is to oversimplify and ignore the realities of the market place.<sup>23</sup>

Census of Business data indicate that chains with more than ten stores maintained their market share throughout the 1930's, 1940's and 1950's--accounting for approximately 20 percent of all retail sales during this period.

In the 1960's, however, the market share held by firms operating ten or more stores soared to 30 percent of total retail volume. And if present trends continue, by 1975 chains with ten or more units will have twice as large a share of the total retail market as that which they held as recently as the late 1950's.<sup>24</sup>

Consequently, the corporate system in the future is likely to have tremendous impact on markets and marketing.

### Contractual Systems

There are three principal versions of the contractual marketing system; wholesaler-sponsored voluntary groups, retailer-owned co-operatives, and franchised store programs. Without dwelling on the technical differences between these modes of distribution, suffice it to say that " . . . voluntary, co-operative, and franchise networks have significantly increased their market penetration in recent years."<sup>25</sup>

Operating economies and market impact that cannot be achieved

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<sup>23</sup>Ibid., p. 4.

<sup>24</sup>Ibid., p. 8.

<sup>25</sup>Ibid., p. 4.



through independent action is achieved by firms operating in voluntary, co-operative, and franchise networks by "pooling" of resources, (i.e., common advertising funds, merchandising programs, sharing of computer and warehouse facilities, and combined purchasing power).

While many of the retail stores in these systems are relatively small enterprises, they operate on a highly sophisticated basis.

"The reasons for this sophistication are self-evident. To an increasing extent, contractual systems are tightly programmed, well-financed networks that are administered by professional executives who rely on integrated management information systems to co-ordinate operations."<sup>26</sup>

There are no aggregate statistics on the relative importance of contractual systems in the economy. Consequently, estimates based on fragmentary data must be developed for each line of trade.

In the grocery industry, for example, 50 percent of all food store sales are now generated by outlets affiliated with voluntary, co-operative, and franchise groups. In the hardware field, approximately 40 percent of all stores in operation belong to voluntary or co-operative groups-- and since these outlets tend to be above average units, it is likely that they account for 45 to 50 percent of total hardware store sales.

By extending this technique to other lines of trade, it is possible to estimate that stores affiliated with voluntary, co-operative, and franchise networks currently account for 35 to 40 percent of total retail sales. When this figure is added to the 30 percent market share enjoyed by chains, it is apparent that roughly two-thirds of total retail sales are generated by outlets affiliated with some type of vertical market system.<sup>27</sup>

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<sup>26</sup>Ibid., p. 5.

<sup>27</sup>Ibid., pp. 8-9.



### Administered Systems

The administered system affects a particular line of merchandise in a store rather than the store's entire operation. Comprehensive programs for a specified line of merchandise have been developed both by manufacturing and by wholesaling organizations. In manufacturing, Kraft Foods " . . . has been so successful . . . that if milk, eggs and butter were taken out of the dairy case, Kraft would have 60 percent of the remaining volume."<sup>28</sup>

Within wholesaling, success in use of administered systems is found in many lines--drug, hardware, sporting goods and phonograph records, to name a few.

These programs have been successful because the suppliers recognized and understood the economics, the operating problems, and the merchandising philosophies of the retail outlets. Likewise, the retailers recognized the vendor's product, promotion and distribution capabilities. In addition, of course, these programs have been successful because the vendors and stores involved developed a joint plan in which goals and methods of achievement were carefully spelled out by both parties in advance.<sup>29</sup>

### The Implications

The managerial implications of vertical marketing systems may be described quite briefly.

Many vertical systems are evolving into self-supply networks. "As this trend continues, a rising number of independent wholesalers will be confronted by diminished sales potentials. To put it another

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<sup>28</sup>Ibid., p. 7.

<sup>29</sup>Ibid., p. 8.



way, 'outside' suppliers have only a limited role to play in an economy dominated by self-sufficient distribution complexes."<sup>30</sup>

### The "Bath Shop" Concept

A form of vertical integration which is being watched closely by the PHC industry and the CIPH is the possibility of the wholesaler entering the retail business.

The term "bath shop" has been brought up from time to time in previous chapters and will be discussed further in Chapters V and VI. In this thesis, this term will be used in a broad sense to denote the concept of merchandising plumbing and heating products at a retail level to the final consumer.

More specifically, the term may also be applied to the actual retail outlet performing the traditional functions of the retailer (i.e., "The Bath Shop").

American-Standard, for example, spent in 1962 in Canada " . . . several hundred thousand dollars in trying to give the plumbing contractor what we thought he needed . . . "<sup>31</sup> As well, the Canadian Institute of Plumbing and Heating has introduced programs such as the Award Home Program mentioned in Chapter III. American-Standard also supported the Mechanical Display Institute in Vancouver ". . . because of our desire to see the plumbing contractor become a better retailer."<sup>32</sup> In 1964,

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<sup>30</sup>Ibid., p. 9.

<sup>31</sup>Donald F. O'Neil, "The American-Standard Concept of Distribution", (paper presented at the annual meeting of the Canadian Institute of Plumbing and Heating, Digby, N.S., July 1, 1969), p. 5.

<sup>32</sup>Ibid., p. 6.



American-Standard opened a bathroom planning center in Toronto, which kept retail hours, but did not sell retail, rather maintaining a policy of distributing products through traditional channels.

Showroom visitors were advised to buy the fixtures they had selected and have them installed through their nearest plumbing and heating contractor. We enjoyed excellent traffic through the showroom and our staff found that it was not too difficult to 'sell-up' on plumbing fixtures and fittings. They sold colour. They sold superior quality. They sold beauty and classical lines, not just purely functional items.

Rather frustratingly, we found, through follow-up surveys, that these people had<sup>33</sup> not ended up with what they had selected in our showrooms.

Observers<sup>34</sup> feel that the distribution of PHC products to the new residential housing and apartment market, and the commercial, institutional and industrial building markets, is relatively sound and straight forward.

The manufacturer's major cause for concern in the distribution of his fixtures and fittings lies in the area represented by the modernization and replacement markets, a vast, yet sadly neglected and stagnant potential volume of business representing millions of dollars.

There are some extremely interesting statistics relating to this market. For example:

In 1968, almost 300,000 bath tubs were sold in Canada. If we assume that 200,000 of these were used in new construction--based on 165,000 completed dwelling units plus hospitals, etc.--roughly 100,000, or one-third of the total

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<sup>33</sup> Ibid., p. 7.

<sup>34</sup> Ibid., p. 1



must have ended up in the modernization or replacement market.

About 500,000 sinks, of all types, were sold in 1968. Assuming a sink per housing start, that means about 175,000 sinks went into new construction. The balance--325,000 or roughly two-thirds--obviously went into the replacement market.

Almost 500,000 closet combinations were installed during 1968. At least 200,000 of these were installed in new hotels, apartments, schools, and homes, but that leaves 300,000, or about 60 percent, which must have found their way into the modernization market.

. . . we are being safe and conservative in concluding that roughly half of the plumbing fixture and fitting market is replacement and modernization. This is extremely significant . . . because it means that in Canada, half of a fifty million dollar . . . market lies in the area of replacement and modernization.

. . . Based on surveys our company has carried out, and general market intelligence, we have concluded that only . . . 60 percent of these products reach this market through the so-called "traditional" channels . . . A very significant 40 percent reach the consumer by way of department stores, building supply dealers, and other retail outlets.<sup>35</sup>

The problem facing the manufacturer, then is: (1) how to most effectively move his products to this market; and (2) how to increase the size of this market.

To try and train all of Canada's plumbing contractors in modern merchandising is impractical. For one thing, do all contractors want to be retailers? Secondly, the manufacturer himself is rarely merchandising oriented. In other words, does the manufacturer know enough to teach anybody anything about retailing?

What the above indicates is that manufacturers feel they must

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<sup>35</sup>Ibid., p. 3.



be constantly alert to the changing patterns of consumer need and adjust distribution policies accordingly.

Chapters V and VI will analyze and describe what patterns of distribution are likely to emerge as a result of the above.

However, at this point, it might be worthwhile to describe the attempt of a Western Canadian PHC wholesaler to enter the retail field.

The bath shop concept was envisioned by this company as being a useful vehicle for the marketing of plumbing products currently handled by the average PHC wholesale house. Prime concern, however, was the merchandising of better quality toilets, taps, basins and bath tubs.

A substantial amount of research was done by both the writer and other members of the company.

Briefly, the company concluded that it would be more profitable to cultivate merchandising to these outlets, rather than attempt to vertically integrate into the retail business.

The decision to approach the problem in this manner was based on the philosophy that the company involved was principally a wholesaler, and, for the present at least, entrance into the retail field would be a costly manoeuvre at this time.

However, it should be emphasized the company is still looking seriously at this form of integration.

The initial research of this company indicated that existing shops did little in actual sales of actual plumbing goods, but rather



concentrated on the accessorizing and decoration of the bathroom.

However, one cannot disallow the figures cited earlier in this chapter by Donald F. O'Neil. Further research would prove, I'm sure, that building supply dealers and department stores account for much of the home renovation business.



## CHAPTER V

### ANALYSIS

As mentioned in Chapter II, responses to several questions were solicited by letter from both manufacturers and wholesalers of plumbing and heating products. The letters were uniform in nature, with only the introductory sentences varying depending on the writer's personal acquaintanceship with the addressee. The few manufacturers replying were approached in person on the subject by the writer, and were very eager to co-operate.

While two of the wholesalers replying, of a total of seven, were from within the writer's company, five replies were received from individuals whom the writer had never met. In addition, the General Manager of the Canadian Institute of Plumbing and Heating, Mr. G. H. Dixon, was kind enough to reply. Following are the questions asked of all potential respondents:

- 1) Have patterns of distribution changed significantly since, say, the early 1950's?
- 2) What factors or conditions have caused these changes?
- 3) Many wholesalers are, of course, still independent in the traditional sense. Will they continue to exist as such in the future?
- 4) What changes will the independent have to make in order to remain independent?
- 5) Vertical marketing systems are one alternative, several types of which are possible: (a) total vertical integration of manufacturer through to retailer; (b) wholesaler sponsored voluntary groups, retailer owned co-operatives, or franchised store programs; (c) manufacturer control of a particular line in a store, rather than



control of the store's entire operation. Would you indicate what you think the relative importance of each of these vertical systems will be in future wholesaler operations in the industry, and your reasons?

- 6) Horizontal or 'conglomerate' integration is also evident in the industry. Do you see this as an alternative to vertical systems?
- 7) What future do you see for your own company in this area?

A complete copy of a "typical" letter is included in the appendix, along with a list of respondents and their respective occupations. A total of twelve replies were received from nineteen requests, for a 63.2 percent questionnaire response rate.

The presentation of results in this chapter will take the following format. A summary of manufacturers' and wholesalers' replies to each question will be presented. Following this will be a comparison and analysis of the two sets of data.

It should be noted that, while most respondents answered each question individually, some responses were received in paragraph form covering the topic in a general, broad way. The writer has taken the liberty of editing these responses as necessary.

Also, some respondents included copies of speeches and articles which they felt would be helpful in answering the questions. These have been treated, for the most part, as individual responses.

#### Questions

To facilitate ease of analysis, replies to questions one and two are combined.

- 1) Have patterns of distribution changed significantly since, say, the early 1950's?



- 2) What factors or conditions have caused these changes?

### The Manufacturers' Replies

Perhaps the best way to begin analyzing responses to these two questions is to quote one respondent's definition of a plumber.

The word "plumbing" comes from the Latin word for lead which was the material originally used to distribute fresh water and to dispose of water-born wastes. Because of the potential dangers to health, codes for plumbing installation were established and the plumber was the person charged with the responsibility of designing and installing the system to comply with the code. The plumber thus made the sale, designed the system, contracted to supply the material, and make the installation, and to provide maintenance for the system once it was installed. The traditional role of the plumber has undergone many changes. Other agencies have taken over most of the sales functions. The design of the system is frequently done by an architect, engineer, spec. writer, or by the code itself. Plumbers by their activities divide themselves into three general classifications and generally describe themselves as mechanical contractors, rather than as merchants or retailers. The three general classes of plumbers might be something like this:

- (a) The major mechanical contractors who sell only their ability to do the job and of course, price. They quote on and install what the architect, the engineer or the spec. writer calls for. Rarely do they sell or market products in the sales sense.
- (b) The apartment/project plumbers who contract high-rise apartments, town-house projects, etc. and who do not sell or market plumbing or heating. They sell price. Actually, there is little incentive for them to upgrade their sales or the product the owner/builder calls for.
- (c) The service/repair/renovation plumber who handles modernization and replacement work. There are a very few in this class who do a creative job of selling and yet it is in this area of our industry that I feel there is one of the greatest opportunities for both volume and profit, and this leads to a statement of a major industry dilemma.

### Industry Dilemma - Lack of Creative Selling

Into this sales vacuum, some new agencies are moving. The



effect of the department stores with their floor displays, their good use of face-to-face salesmanship, and their mail order catalogue have long been a significant factor in affecting buyer decisions in this country. A newcomer in this field is the builders supply house which had previously featured everything for the home with the exception of plumbing and heating. It is only natural that manufacturers and wholesalers may experiment with other methods of filling the void in sales. A part of the whole problem with the changing pattern of distribution is the appearance on the scene of the original equipment manufacturer such as the prefabricated home builder, and the trailer manufacturer. The dilemma that the plumbing and heating industry faces is this: we must either recognize and accept the changes that are taking place in the industry and in the patterns of distribution or reconcile ourselves to losing markets which we have traditionally enjoyed.

This observer further commented that "while consumer product wholesalers have shown a decrease in their share of the national total, (i.e., total national sales of PHC products) industrial wholesalers have grown in both volume and in wholesaling product groups."

Following closely the previous line of thought, one other respondent felt that changes have occurred and are still occurring, not so much in the pattern of wholesalers' activities as in the fragmentation of the market into more defined and catalogued categories. More will be said concerning these categories in the following section on wholesalers' replies.

In the broadest sense, however, this observer feels the traditional pattern of distribution of manufacturer-wholesaler-mechanical contractor-user is still predominant. New patterns are developing, however, in the re-routing of this flow to the user from the manufacturer by way of retail stores, mail order catalogues, building material supply houses, pre-fab house manufacturers, and the mobile home and



camper-trailer business.

One observer also added that these conditions make it difficult for the small independent to compete. In serving these new markets the wholesaler's role is becoming one of a "broker", and only the largest wholesalers are able to adjust their overheads to enable them to specialize in these markets.

In reply to the second question concerning the reasons for the above, the following forces of change were outlined.

The traditional distribution system from manufacturer to wholesaler to plumber which I have described grew up under circumstances that are quite different from those which we face today. I would like to discuss briefly some of the forces of change that we should recognize.

- 1) Communication - Communication should be much faster, clearer and more explicit than it has ever been before. However, we still have many problems to overcome. Speaking from the point of view of the manufacturer, I can say that we have a great deal of difficulty in getting a clear picture of the market size, of the requirement for products, of the seasonal patterns for planning stocks, from our wholesale customers. We never feel sure that they have put enough effort into the promotion of new products.
- 2) Delivery Time - Historically, one of the reasons for large wholesale inventories was the time it took to get material from the manufacturer to the wholesaler. This time has been cut down by the faster train schedules and trans-continental trucking. As we move toward industrialized building, this applies to the monumental buildings such as the Toronto-Dominion Centre, to the high-rise apartments, to the town-house projects or to the factory-built homes. Delivery on time of all components becomes absolutely essential. In most cases, the job site has limited storage so that material has to move in as it is being used.
- 3) Variety of Products - The vast variety of products by make, by size, by model, by colour, makes the job of stocking all types, all sizes a virtual impossibility for either the wholesaler or the manufacturer. The



only acceptable alternative to excessive inventories, high costs, frequent stock-outs and delays in the job is a co-operative agreement in the planning, provision of adequate lead time and an attempt to reduce the number of varieties on the part of the wholesaler and the manufacturer.

- 4) Discretionary Income - A new force of change that moves in the opposite direction to the variety of products is the discretionary income now available to so many families in Canada. As in industry, we face the problem of providing a reasonable number of choices to the public, presenting them in a way where they can make selection and yet not create such a multiplicity of products that we can no longer do an adequate job of either product or profit management.
- 5) Need for Lower-Cost Housing - Perhaps the most pressing change facing the whole construction industry is the need to be able to build houses that people can afford to live in. The Canadian Government approach has been to do a study on modular construction of industrialized fabrication and in development of a new building system that reduces on-site labour.
- 6) Need for Easier Service - as the charge-out rate for plumber's time goes up, it becomes more and more impractical for the average home-owner to have a plumber do the normal service work. With a charge-out rate of say 20 cents a minute as is currently being used in some cities, it is quite conceivable that the cost of changing a 10 cent washer might well be \$25.00. A year ago we introduced a device that would simplify the servicing of a faucet by the home-owner. We showed this product at the mechanical exhibition at Montreal last year and attracted a lot of attention at the exhibit. The reaction which we got was interesting. We were condemned by the plumbers in Montreal for showing home-owners how to service their faucets and thus depriving them of their livelihood. However, they did not need to worry because our total sales for the whole of Canada were six units.

Another observer felt the principal factor in promoting these changes in distribution was the refusal of the so-called plumbing industry wholesaler and plumber to accommodate change and re-pattern his services to meet the requirements of a new generation and more desirable



shopping atmosphere.

At this point, the reader may recall the discussion in Chapter IV of the bath shop concept. One observer commented on this new concept as follows in his reply.

When we look at the new residential housing and apartment market, and commercial, institutional and industrial building, the distribution of plumbing products to these markets is relatively sound and straight forward.

The manufacturer's major cause for concern in the distribution of his fixtures and fittings lies in the area represented by the modernization and replacement market, - a vast, yet sadly neglected and stagnant potential volume of business, representing perhaps 25 million dollars.

How are plumbing products reaching this modernization and replacement market? Based on surveys our company has carried out, and general market intelligence, we have concluded that only approximately 60 percent of these products reach this market through the so-called "traditional" channels of plumbing and heating wholesaler to plumbing and heating contractor and finally to the customer. A very significant 40 percent reaches the consumer by way of department stores, building supply dealers and other retail outlets.

The plumbing fixture or fittings manufacturer's distribution problem, relative to this market and this situation, is therefore a simple, two-fold one:

- 1) How do we move our products most efficiently and profitably to this market?
- 2) How do we make this market larger?

At American-Standard, we have concluded that to try and train all of Canada's plumbing contractors in the way we feel they ought to sell is impractical. In the first place, we are not too sure if all contractors want to be retailers.

In the second place, do we at this stage really know enough about retail merchandising methods or retailing problems to teach anybody anything?

We are satisfied that sales on a direct basis to large volume retailers, such as department stores, building supply



dealers, etc., who are geared to serve the modernization and replacement market, is a trend that will grow and expand.

Now we should discuss perhaps more radical new concepts of distribution to this modernization market. One idea has recently been revealed by American-Standard's opening of a retail store, The Bath, located in a shopping plaza in North Toronto.

We felt that somewhere along the line this industry had missed the boat in attempting to expose the products and services we have to offer via our present retailer, the plumbing contractor. We had been unable to interest enough plumbing contractors to adopt our selling philosophies.

Here are some interesting and somewhat significant figures:

DBS figures show that households with two or more cars have doubled in number since 1961.

Households with colour TV sets have increased six times in number in the last two years! Four years ago, there were only about 200 snowmobiles manufactured in Canada. Do you know what the sales estimates for these fun vehicles are for this year? 400,000! And to round out the selling season, the Seadoo is now in full production and promises to be another winner.

Each of these products I have mentioned represents an expenditure of between one and two thousand dollars. That kind of money will buy a beautiful new bathroom, but the sad fact is that we know our modernization market has not grown at anywhere close to the same pace as these other products.

### The Wholesalers' Replies

"The homeowner public deserves a better shake than the plumbing industry has traditionally offered . . . what this industry offers the public is really pathetic when compared with the fine shops and services that other industries are currently offering." This is a comment made by an observer at the annual meeting of the CIPH in Digby, N.S. Following are some of the comments received from him concerning questions one and two.



This observer outlined several markets which the plumbing wholesaler must serve. The reader will recall these "markets" were mentioned previously in the preceding section on the manufacturers' replies.

These markets are:

- 1) Mechanical contracting on non-residential construction;
- 2) Apartment construction;
- 3) Single family home construction;
- 4) Manufactured homes (including mobile homes);
- 5) Industrial sales - pipes, valves and fittings;
- 6) Waterworks and sewage;
- 7) Replacement or remodelling.

This latter market may be further subdivided into two classes:

(1) installation services not required, and (2) installation services required. He pointed out that more and more homeowners with increasing leisure time are frightened to death to call a tradesman at 8 to 11 dollar charge-out hourly rates, and often tackle the job themselves. This observer feels materials and products are getting easier to install and as this market grows, products will be more and more designed for quick installation. The biggest problem is that the plumbing industry has lacked sales outlets or sales centers.

Patterns of distribution thus have been changing since the early 1950's. The growth of the large national chains such as Emco and Westburne to compete with the existing national chain, Crane Supply, is one major change. Other chain type wholesalers have also developed



(such as Western Supplies and Cronkhite Companies), but not in the same national scale as the "big three". While these companies are not new, their dominant position in the market place is what constitutes the change. Wholesaling is polarizing into two groups - the large chain operator with many branches, who can buy "better" from the manufacturer, (because of buying power) and who competes with the other chains for the large jobs, both commercial and residential, where the volume sales exist.

The growth in demand for housing, particularly high rise apartments, where large quantities of material are involved, has helped this polarization by concentrating the business available into large orders where price competition is fierce and substantial financing of credit terms is required.

At the other pole, are the small and medium independents who do not have the buying power, and as a result, cannot be fully competitive on large jobs. Nor can they handle the financial burden of extensive credit sales on 60, 90 or 120 day terms. These tend to be single branch or regional branch operators.

Another major factor in the polarizing of small and medium independents has been lack of funds for expansion of capital facilities, inventories, and accounts receivable. There has also been a thinness in the managerial assets that has inhibited growth. Frequently, these have been businesses developed by one man, often with only a sales background, who has been concerned that if the business got too big, he would not be capable of managing it. This observer also points out



that all three national chains have had access to funds to finance their growth.

Returning for a moment to the previous market breakdown, another observer comments in his reply . . . that while conditions have not changed in the methods of distribution, in the first three categories, and the fifth and sixth, there is a definite trend and a change in the method of distributing material required for mobile homes (item 4) and replacement or remodelling markets (item 7). He concludes by suggesting that many alternatives will no doubt develop in the future that offer opportunities to wholesalers, but one thing is certain - sticking to the traditional system appears deadly. Many opportunities have already slipped away - and much more will - if we remain blind to it.

One observer also felt another important reason for the changes during the past five years is new products, the most important of which are polyester fixtures and plastic pipe and fittings. The established plumbing manufacturers have entered the polyester market with bath tubs and counter-top basin combinations, and while they have attempted to market these products through the regular channels of distribution, there are recent indications that they will be forced to sell direct to end users, bypassing both the wholesaler and the contractor. Small plants are cropping up in nearly all the major cities in Canada, and all are selling direct to end users.

As well, there are many plastic pipe and fitting manufacturers now operating across the country. These products are becoming increasingly difficult for the wholesaler to handle because of direct selling.



Other respondents also agreed with the previous statements.

One observer made the following comments concerning questions one and two.

Patterns of distribution have changed during the 1950's up to the present time, and I believe will continue to change. Some examples of changes in distribution have been in the approach of manufacturers to large department store outlets across Canada which affects both plumbing and heating equipment. As well, there is more direct-to-the-plumbing contractor selling of specialty equipment, such as fire hose cabinets and heating and air conditioning units, particularly on new commercial and industrial contracts.

There are more stencil lines being manufactured for the direct-to-you distributors; e.g., departmental stores and chain outlets. A few examples of these are: pumps, softeners, fixtures and fixture trim, hot water tanks, toilet seats, bathroom accessories (paper holders, toothbrush and tumbler holders) and medicine cabinets, all of which were, at one time, distributed by the plumbing and heating wholesaler through the plumbing and heating contractor. No doubt there are many more examples that affect the volume of sales at one time enjoyed by the wholesaler.

One factor that has caused the change in distribution, I believe, is that manufacturers have become more and more aware of the fact that the wholesalers and the plumbing contractors are not doing the job of merchandising that the manufacturer has expected them to do for him. The wholesaler has put most of the blame on poor merchandising, marketing and selling in the lap of the plumber. I do not believe this to be entirely fair.

The wholesaler generally has not had adequate training programmes for their own staff, nor product shows for the plumber. There are numerous wholesaler "order-takers", but very few knowledgeable, sincere, service-conscious wholesaler salesmen. A wholesaler's advertising of a manufacturer's product has been poor if done at all. In most cases, technical problems or complaints that arise in the field, particularly on specialty items, were referred back to the manufacturer for correction. In some cases, this was because neither the plumbing contractor nor the wholesaler had taken the time to really study and know the products that they were selling, distributing or installing.

In other cases, if the product was understood, they were



too busy getting new orders to correct or service the field problems. Therefore, they took the line of least resistance and called on the manufacturer or his representative. Orders for the bread and butter items (soil pipe and fittings, oakum, range boilers, hot water tanks, copper pipe and fittings, housing fixtures, etc.) -- products that require little study and teaching to understand -- were usually far easier to get. Therefore, insufficient time was spent to learn about or sell specialty equipment. Also, items of a technical nature were not mentioned, and these were the first items to be taken from the wholesaler by the manufacturer and sold direct, particularly if there was little or no credit risk involved.

The introduction of new materials that are easier for the handyman to work with have encouraged the manufacturer to look at other forms of distribution such as department stores, direct-to-you outlets, etc. When roughing-in material, such as steel pipe for pressure lines and cast iron soil pipe for drainage, etc. was commonly used, the handyman would not normally invest in the tools necessary for installation of this material, because it was an expensive proposition. Electric or heavy tools were necessary, also cutting and threading machines, reamers, cutters, cutting coils, fire pots, torches, chain tongs, etc.

Copper pipe and fittings were introduced to our industry just prior to the War, but by necessity discarded during the war years. Again, introduced after the War, they gathered momentum in acceptance during the 1950's and gradually replaced steel pipe, malleable and cast iron fittings for many installations. Copper pipe and fittings encouraged the do-it-yourself type of trade because expensive tools were no longer necessary for many house or farm installations or many small, general maintenance repairs. They were lighter in weight and easier to work with. Many installations could be made with only a hack saw, cleaning equipment (sand paper, etc.), solder, and a torch of some type. The basic material cost for copper installations was generally more expensive, but this was more than compensated for by the saving of labour and, as mentioned above, the lower cost of tools. Copper pipe and fitting installations have more recently given way to plastic pipe and fittings. Plastics are less costly than copper, easy to work with, and make general home maintenance more exciting and easier for the handyman; thus making a double saving -- both material and labour.

Other factors that have encouraged manufacturers to look at the department store type of distribution is the replacement of heavy enamelled cast iron baths and basins, etc. with the lighter enamelled steel baths, vanity basins, and stain-



less steel sinks that are easier to handle and install, and the introduction on a volume basis of light-weight coloured fixtures.

The manufacturer became more and more aware of the fact that the plumber was not a good merchandiser and that the wholesaler usually was not that much better.

The price situation and rising economy of our country was also abused, and often prices quoted by the plumbing and/or heating contractor were much higher than prices advertised by other outlets, leaving the customer or end user confused and suspicious of the contractor. This, in turn, encouraged the handyman or do-it-yourself type of individual to shop and explore for other sources of material. The steady increase in wages of plumbers and installers of heating equipment has also encouraged home-owners to attempt doing their own purchasing for building maintenance and also doing their own installation. In other words, many plumbing and heating shops were guilty of gouging the public. The manufacturer also became aware of this and looked for other ways of distributing their products through more sophisticated outlets which would advertise plumbing materials at a true or realistic market value.

In approaching the department stores and direct-to-you outlets, manufacturers were able to increase their production and ship in larger quantities. This helped cut down overhead expenses. Advertising budgets were lowered because the new outlets assumed part of this responsibility. These factors contributed greatly to a reduction in prices on many items bought and installed by individuals.

The replies received to questions three and four have been summarized together.

3) Many wholesalers are, of course, still independent in traditional sense. Will they continue to exist as such in the future?

4) What changes will the independent have to make in order to remain independent?

#### The Manufacturers' Replies

Without exception, all manufacturers replied positively to the



future of the independent wholesaler in this industry. The writer quotes one observer who says:

(this) does not mean that the small independent wholesaler will disappear. On the contrary, he becomes even more necessary to serve . . . markets such as modernization, custom built homes, small and medium commercial and institutional construction, and the like. The independent wholesaler who gears his operations to serve these markets, or in effect, "specializes", can look forward to continued profitability. . . . to remain independent and profitable he will have to decide which market or markets he wishes to serve and set up his staffing and practices to best serve these particular markets. A degree of "specialization" is a must.

Undoubtedly wholesalers today face very serious problems. If a wholesaler elects to restrict his activities to the plumbing and heating contractor, and that particular customer loses a market to other forms of outlets, then that wholesaler loses this market also (and it follows that the manufacturer who restricts his sales to wholesalers then loses that market as well). In my opinion, in order to survive, wholesalers and manufacturers in the plumbing and heating industry must decide who their customers are, and the type or types of markets they wish to serve. If we are to overcome the problems of delivery of premium-priced products, and if we are to do a better job of upgrading our sales, its to be hoped that at least one wholesaler in each major market elects to specialize in this kind of business. To my mind, more and more specialization on the part of wholesalers is a distinct trend for the future of the plumbing and heating industry.

Another observer answered question three as follows . . .

I will rephrase this, and in place of the word "will", use "could they". And my answer is yes, most definitely with a very bright future. He can do this by changing his identity from wholesaler to distributor . . . and contain his activities within the framework of his limitations dictated by the pressures of the big jobber chain groups. The independent could also service those manufacturers now performing a partial wholesaler function, and could build a substantial business on a profitable basis. The market in his trading area that he could serve very well may be made up of something in this order:

- service the local area plumbers on their daily pick-up requirements;



- serve industry in his community;
- cater to the do-it-himselfer (Friday nights and Saturday business);
- supply to the kitchen and bathroom renovating contractors;
- specialize in catering to the carriage trade by offering more sophisticated styles of fixtures, and possibly the inclusion of a bathroom boutique shop.

### The Wholesalers' Replies

The wholesalers' replies to the "future of the independent" were somewhat less positive in nature. All replies did indicate that survival of the independent was possible under certain conditions.

For example, one observer commented . . .

If an independent wholesaler is to remain independent and be successful in a very competitive market, he will have to change and sell directly to the public. In many cases, the wholesaler will be performing an assembly function, yet he will have to create an image and make the public aware of the goods he has to sell. Advertising, a good showroom, and excellent counter service are examples of changes the independent must make to survive. In short, he must merchandise.

Another observer commented . . .

We believe that the large independent will continue to survive in the traditional sense (intermediate between manufacturer and contractor). He will be able to buy almost as well as Emco and Crane, and will be able to remain in a competitive position with them. The large wholesaler is an efficient means of moving a wide variety of goods to the construction market and this is unlikely to change. His ability to move large quantities of materials for manufacturers will remain a cheaper means of distribution than the manufacturer can hope to achieve by direct sales. Manufacturer-owned wholesalers are not cheaper to operate than independent wholesalers.

The small and medium sized independent can survive provided he adapts to changing market conditions. He will need to search carefully for those markets he can serve efficiently



and may have to move some parts of his sales effort into different channels. We believe there will always be many repair and replacement plumbers who need good service on delivery, technical advise, etc., who put price secondary to services. At the same time, many products like tub enclosures, waste disposers, etc. lend themselves to sale on a direct basis to say custom builders, cabinet shops, modernization centers, or possibly even to apartment builders. Wholesalers can handle this type of sale more efficiently on a local level than the manufacturer. Some wholesalers may even become master distributors for some specialized product lines and act as service/supply depots for other wholesalers. We do this now for water softeners and waste disposers of certain brands.

The small/medium wholesaler who is not likely to survive is the one who attempts to compete with the large wholesaler for large jobs but can't quite keep up because he doesn't buy as well nor can he stand the financial burdens placed on him. Specialization is the key to survival for the small/medium wholesaler. He must "sell smarter, not harder" to borrow a phrase.

The product explosion in this industry has been dramatic in recent years. First, copper then plastics, for example, brought tremendous changes to piping technology. New installation techniques had to be mastered yet the old ones retained. Wholesalers had to expand their product offerings with the consequential heavy investment in inventory. They also had to acquire more knowledge about products. To survive, a wholesaler must maintain a high "product capability".

"Managerial capability" is the other concern for survival. It is true of the large, small, or medium wholesaler. Sound business practices are extremely important when competition is fierce, credit terms are difficult, financial burdens are heavy, and product capability is demanding. Wholesalers who attract good people by employing sound business practices have a better chance for survival than those who still rely on "seat-of-the-pants" approaches.

Another observer also feels largeness is the answer to independent survival. He comments . . .

I doubt if the independent wholesaler will survive unless there is a great deal more co-operation between them. For instance, our company and three competitors in other cities, namely Kitchener, Chatham and Windsor got together and formed a separate buying company. We have used this company to get into various rebate structures and quantity buying.



This has helped us substantially. I also feel that this close co-operation will lead to an amalgamation in the very near future. Two of these companies have other lines, chiefly in tools and mill supplies, that would blend into our business, thereby adding sales volume. The only salvation for the independent wholesaler is to find additional lines, and if economically possible, to join forces.

Other comments were quite similar to the previous . . .

You point out in your letter that many wholesalers are still independent in the traditional sense, but I would like to suggest that it will become more and more difficult for the independent to remain independent. I make this statement because today there are more and large national chain wholesalers spread from coast to coast across Canada. These chains exert pressure to increase their buying power, thus making it more difficult for the independent to buy as competitively. The independent cannot, of course, buy in the same volume as the national chains. This would require more bank credit than he could possibly get regardless of how good his credit record had been in the past.

Banks are not allowing the financial borrowing necessary and the interest rates on company loans are steadily increasing. Financing is becoming an ever-increasing problem.

I do not believe that the independent as such will continue to exist in the future.

Replies to questions 5 and 6 are also summarized together.

5) Vertical marketing systems are one alternative, several types of which are possible: (a) total vertical integration of manufacturer through to retailer, (b) wholesaler sponsored voluntary groups, retailer owned co-operatives, or franchised store programs, (c) manufacturer control of a particular line in a store, rather than control of the store's entire operation.

Would you indicate what you think the relative importance of each of these vertical systems will be in future wholesaler operations in the industry, and your reasons?



6) Horizontal or 'conglomerate' integration is also evident in the industry. Do you see this as an alternative to vertical systems?

There were problems inherent with these questions which the writer hoped would not appear. However, some difficulty was experienced due to respondents' lack of familiarity with terms such as vertical integration, wholesale sponsored voluntary groups, conglomerate, etc. Some respondents were, however, quite familiar with these terms, and these replies are presented below.

#### The Manufacturers' Replies

Total vertical integration was, according to one observer, definitely a real possibility, as was manufacturer control of a particular line in a store.

Concerning horizontal integration, one observer felt the conglomerate will be the principal participant in serving the new home construction and high rise markets. Their operation, he felt, will come under the classification of "jobber", and because of his volume buying and ability to earn the maximum volume discounts, this observer could also quite readily envision him becoming the supplier on a lot of items to distributors.

Another observer felt both vertical integration and wholesaler sponsored voluntary groups were going to take place in the future. (Some vertical integration exists now, of course, with Emco and Crane.) However, he could not visualize manufacturer control of a particular line in a store, for two reasons:

- a) . . . a manufacturer such as ourselves must contemplate more and more control over the distribution of our products.



For many years, we have faced the frustrations of independent wholesalers stocking and promoting our products almost at their whim, and plumbing contractors acting as the retailers of our products without any training or interest in modern retailing methods. I think it is inevitable that large manufacturers in the plumbing and heating industry integrate vertically with the result that they own not only their own wholesale outlets, but also their retail operations as well. This has happened in many other industries . . . and it is only a matter of time before it occurs in our industry.

b) . . . Since many wholesalers experience the same frustrations that the manufacturer does relative to lack of retailing expertise on the part of his contractor customers, I think it is very likely that wholesalers collectively or independently will reach more and more into the retail level of our business.

This observer does not anticipate a great deal of horizontal or conglomerate integration to take place within the industry, since the Combines Investigation people in Ottawa are opposed to this sort of growth within an industry. However, . . .

I can certainly visualize horizontal acquisition taking place outside of our particular industry, as has happened with our own company on a world-wide basis. In the past two years, American-Standard Incorporated has more than doubled in size through the acquisition of such companies as Westinghouse Air Brake and the Mosler Safe Company. I don't see this strategy necessarily as an alternative to vertical integration. I think both have their place, and which avenue is followed probably depends on the individual company's circumstances.

#### The Wholesalers' Replies

What this writer considered two excellent replies are summarized below. Unfortunately, other replies were too sketchy.

The first respondent's prognostications were as follows:

Total vertical integration is one direction that has been taken by Crane and Emco, although they have not apparently gone the full route and to our knowledge, do not operate any retail operations. Quite frankly, we cannot see any real advantage to wholesalers owning their own contractor (i.e., retail) outlets. Vertical integration of wholesaling and



manufacturing seems to be a valid arrangement and more of this is likely to continue.

Wholesaler sponsored voluntary groups is an interesting topic. We engage in such an arrangement with several other wholesalers for buying certain commodities. Personally, I do not understand why more of this has not been done, particularly in the purchasing area. It seems a logical development if the small/medium wholesalers wish to compete with the larger ones. There is an opportunity in this for someone to develop.

Retailer owned co-operatives for buying does not seem to be a likely development. It does not offer any advantage to the large mechanical contractor because he buys specific items for specific jobs. This co-operative arrangement requires a certain amount of business sophistication that the small plumber who would possibly benefit, just does not seem to have. Co-operative buying implies bulk purchasing, hence inventory accumulation. Plumbing contractors do not generally hold inventories. Franchised store programmes are a very real possibility and American-Standard's "The Bath" will be the first attempt. We believe it will be successful.

Manufacturers' control of lines in retail stores does not strike us as a likely development. Plumbing and heating lines moving from traditional channels into D T U (direct-to-user) outlets will still be supplied by the same manufacturers. Merchandising techniques required to move these products at retail levels are not developed by these manufacturers and they are not likely to attempt to develop them in the near future.

Horizontal integration really only exists at the manufacturing level. Wholesalers who expand horizontally are just buying other wholesalers and their main reason for doing this is to expand into a new market. It is usually cheaper to buy an existing established wholesaler in a market you wish to penetrate than to fight your way in. It also has the advantage of removing one wholesaler from the scene so it does not add to the competitive situation.

Horizontal integration by manufacturers is done mainly for one of two reasons (sometimes for both).

- a) An opportunity to improve corporate profitability. Most manufacturers are generally alert to this. In the case of large companies, sophisticated management techniques where R.O.I. (return on investment) is stressed, frequently will lead to horizontal expansion.



- b) To protect existing products. Because of rapid product changes, manufacturers attempt to protect their traditional market positions by acquiring companies manufacturing related products. This is particularly true if a company regards itself as a supplier of product that performs a certain function rather than by type of material. For example, American-Standard is in the fixture business, hence when stainless steel sinks, enameled steel tubs, sinks, basins, plastic vanities, etc., appeared, these new products had functional features that American-Standard regarded as traditionally part of their product offering, so they moved into these fields. Similarly Noranda, a copper pipe manufacturer, has moved into plastic piping.

The exciting changes that will likely occur in our industry are more likely to be in vertical integration rather than horizontal because vertical integration represents real departure from the norm. Horizontal integration is not an alternative course of action to vertical except in the purely financial sense that available funds will probably limit the course of action taken.

The second respondent's comments compliment the above:

Two national manufacturers and wholesaler distributors are already offering a packaged bathroom to the building industry. The instant bathroom by "Crane" called the Futura 300 (5'10" X 5'9") includes a moulded-in tub, medicine cabinet and mirror, lighting and all accessory hardware, vitrous china water closet and integral lavatory with trim. Futura 300 includes floor, walls, ceiling, etc., and comes in four sections that can be taken through a 30-inch door and can be installed in half a day. Futura is made of sanitary grade fibre-glassed reinforced polyester resin with a smooth gleaming white interior.

Emco are not far behind and will have a different but competitive bathroom to offer the trade in 1970. Bathroom and boutique type stores, specializing in "everything for the bathroom" are opening across Canada, seemingly getting their start in Eastern Canada. In all probability, American-Standard will co-ordinate other wholesalers to compete with Crane and Emco. This new concept in marketing will, I think, be successful and further handicap the independent wholesaler unless he makes the necessary changes.

A possible way to compete and remain independent will be to specialize in some part of our industry . . . e.g. contract sales, retail outlets, bath shops, etc.



It appears that the vertical marketing systems such as that planned by Crane and Emco (and possibly American-Standard) will be on a trial basis and will be with us for an indefinite period of time. The length of time will depend on whether or not they are successful. I am inclined to believe that they will be successful but will probably concentrate on the remodelling and renovating part of the market. Statistics have been quoted to show that this type of market exceeds \$25,000,000 for fixtures alone and that this figure does not include installation charges or cost of other items which go with the remodelling package.

7) What future do you see for your own company in this area?

#### The Manufacturers' Replies

One observer reiterates American-Standard's entrance into the field of retailing, namely the previously mentioned bath boutique in Toronto, The Bath.

Another observer, on the other hand, does not indicate his company will vertically integrate, but he does spell out clearly that they intend to move their product any way possible. Under the pressure of market change, this observer looks for the movement of large quantities of plumbing goods to the consumer by way of capable marketing units, i.e., the retail store. He feels the Canadian market is small in terms of permitting the investments necessary by a manufacturer to produce more economically, and hence, the manufacturer must supplement his market by moving his products through marketing groups outside of the restrictions of the plumbing industry.

#### The Wholesalers' Replies

Wholesalers' replies to this question were also quite sketchy. Many respondents felt that they had implied the answer to this in



answering earlier questions. The writer has included two definite replies, however, and believes that they are quite adequate for purposes of this thesis.

One observer commented . . .

We feel our future lies in being flexible in our market approach to move into areas of opportunity where we can excel. We are acquiring specialized product knowledge in the field of plastic piping and we know we can do a better job than any other wholesaler in our market. We are stocking products with which we have demonstrated our ability to out-perform other wholesalers such as: In-Sink-Erator garbage disposers, Showerfold doors, Everpure Water Softeners, etc. We are prepared to sell direct to builders or retailers if this becomes necessary to move certain types of products. We are experimenting with retail sales in one of our branches. We are moving strongly into waterworks markets (specialized field), as well as into industrial sales, and we are backing up this marketing effort with a highly efficient order handling process and information system that keeps us on top of our operation at all times.

Another observer had this to add:

To answer your last question . . . means to summarize and repeat some of the foregoing. I personally have an unquestionable faith in the future success and growth of our company, as an independent. If we were to be bought out, say by a conglomerate group with unrestricted financing, this would no doubt expedite the successful future of our company. Whether or not this will happen remains to be seen.

If we remain independent, we will only continue to be successful with sound and capable leadership and management. The key to our continued success is, without a doubt, people. We must be able to attract and keep the most qualified and capable personnel possible to fill important leadership positions as they arise.

A detailed description of all replies has not been included because the writer feels it would serve no useful purpose. Many replies were very similar in nature. The criterion used by the writer was to include those replies that were most complete. It is interesting to



note, however, that there was no contradiction expressed to any of the questions by any respondent. Unfortunately, some replies were sketchy in nature, a few to the point of being almost meaningless. This is not to be unexpected in research of this type.

Following the writer has prepared a table summarizing responses to the questions asked of both manufacturers and wholesalers.

<u>Question</u>	<u>Manufacturer</u>	<u>Wholesaler</u>
1. Patterns Changed?	Yes	Yes
2. Factors	Communications; Delivery time; Variety of Products; Discretionary Income; Low-cost Housing; Easier Service;	Development of new markets; Chainstores; High-rise Apartments; New Products; Merchandising;
3. Independent Exist in Future?	Yes, with reservations	Yes, with reservations
4. Changes	Develop new markets; Merchandise;	Merchandise; Specialize; Develop Expertise;
5. Vertical Systems	Total vertical integration; Wholesaler-sponsored voluntary groups; Franchised store programs;	Partial vertical integration; Wholesaler-sponsored voluntary groups;
6. Horizontal Integration	No	No

Question number seven has been deleted from the above summary as it is really not pertinent, and can be deduced from the replies received.

A further observation would be in order at this point. Replies received and interviews carried out indicate a strong competitive



feeling within the channel. The retailer feels he is paying too much, the manufacturer feels no one wants to sell his product, and the wholesaler feels everyone is trying to do the wholesaling.

Perhaps if more channel co-operation existed, many problems would disappear.



## CHAPTER VI

### CONCLUSION

In Chapter I, it was suggested that there currently prevails two distinct views concerning the position of the wholesaler in our economy. Either the wholesaler is losing ground as a source of supply to the retail trade or, in certain instances the wholesaler has made a comeback to a competitive position.

The reader will recall that it is the future of the wholesaler with which the writer is concerned in this thesis, and not the function as such. Therefore, it is who performs the function that is of paramount importance, the assumption being that it must be performed. The independent, the reader will recall, was described essentially as the "traditional middleman", and having no ownership ties with either manufacturer or retailer.

With this in mind, then the writer will now outline the central ideas that have developed in earlier chapters.

#### The Emergence of New Markets

It was determined from the replies that some changes in patterns of distribution had taken place since the 1950's. These changes were the result of the development of two new markets for PHC products, namely the prefabricated and mobile home markets, and the remodelling and renovation markets. Manufacturers and wholesalers both agreed on this point. The traditional patterns of distribution (manufacturer-wholesaler-retailer) still predominate in the industry, most observers



felt, but were being encroached upon by mass merchandising at the retail level. This situation resulted in direct bypassing of the wholesale middleman.

Better communications, better and lower cost delivery, increasing discretionary income, the need for lower cost housing, and easier servicing of products were all cited as forces of change. New materials and ease of installation, combined with high tradesmen's prices, has become a major impetus in the development of the do-it-yourself market. Department stores, building supply houses and the like are dominating in the sale of these products, and as mentioned, typically buy direct from the manufacturer in huge quantities.

The reader will recall one observer's definition of a plumber in Chapter V. Both the major mechanical contractors and the apartment/project plumbers seem to have limited incentive to "sell" plumbing products. The service/repair/renovation plumber, on the other hand, has the opportunity to do a creative job of selling. Yet, most observers feel little actual creative selling takes place. Again, to quote this same observer, "one of the greatest opportunities for both volume and profit" lies in this area.

A similar situation seems to exist with prefabricated and mobile home manufacturers. Apparently the manufacturer has found it necessary to bypass the wholesaler again because of lack of performance on the wholesaler's part.

The prevailing idea throughout the above is, of course, the concept of selling. Each segment of the PHC industry attempts to blame the others for non-performance of this function when, in reality, all



parties seem equally guilty.

The marketing of plumbing products is now entering an era where style is taking on more and more importance. This is particularly evident in the "visible" products in the bathroom or kitchen. With new products appearing constantly and the continual awareness of the consumer, it is not at all unusual for a bathroom to be out of date even two or three years after completion.

Servicing and specialized design of some products to meet individual needs is also becoming an important factor in the PHC industry. The margin in many of these lines is higher than in the high volume items, and by becoming an expert in his field, the seller can retain more of the margin for himself.

Does this mean, then, that the independent wholesaler should reject his traditional customer, the plumber, and sell direct to the final consumer himself? Perhaps he should set up a "bath shop" and stimulate his trade to the purchase of more sophisticated plumbing products. This solution is, the reader will recall, being attempted by American-Standard and "The Bath". To sell retail would very likely stimulate higher sales and profits to the wholesaler. There is a definite need for this. However, for the wholesaler to enter this field could be very perilous. For example, he risks losing the plumber as a customer to his competitors. As well, the wholesaler is simply not a retailer, and to become a retailer would be a major task in re-organization and thinking.

The "bath shop" concept is not suitable to the wholesaler for



these reasons. Rather than integrate downward into this business, the wholesaler should endeavour to have his products placed in these shops (and this includes bath shops in department stores). In this way, sales can be upgraded with little or no disturbance in the industry.

To do this requires some re-orientation, of course. The wholesaler's salesmen would probably perform more services for the final seller. He is not selling to the plumber now, but to a group of individuals to whom the technicalities of even simple plumbing might seem tremendous problems indeed.

The reader will recall the experience of the Andrew Company outlined in Chapter III. Design, training, and trouble-shooting were all added to the "traditional" job of selling. The experience of other industries who are performing these services can also be profitable.

Wholesaler showrooms are another effective way of merchandising. Surprisingly, the era of the wholesaler showroom seems to be passing. As mentioned earlier, many PHC wholesalers abandoned their showrooms some years ago. A few continue to persist in Western Canada, particularly, but industry observers suggest consideration is being given to the elimination of all showrooms in an effort to economize.

The showroom is now coming into its own. Perhaps previous wholesaler dissatisfaction with this concept was premature. There is a cost associated with a showroom, of course, and each individual must decide for himself the relative advantages and disadvantages of this concept in the future. The wholesaler, particularly the small independent, cannot afford to be without one. New products and colours must be



exhibited to the consumer.

As well as encouraging remodelling and renovations, the independent wholesaler should also encourage new home and apartment builders to use better products. Too often little or no effort is made by the wholesaler or plumbing contractor to inform these people of the advantages of newer and better products.

The manufacturer often makes efforts along these lines, with his local representative detailing to architects, plumbing contractors, builders, and government agencies; however, his efforts are spread thinly, and sometimes incur the ire of the wholesaler who feels he is being bypassed again.

Prefabrication and mobile home manufacturers are both highly specialized operations, requiring a different plumbing "package" than do apartment builders. Much of their installation is not done by licensed plumbers, which generally means a requirement for simplicity of products. Hence, the introduction of "complete" bathrooms which are merely bolted into place. The constant repetition and standardization required by these people results in many more pre-assembled packages than is found elsewhere, although this trend is becoming more evident in apartment construction.

The point is that for the most part it has been the manufacturer who has been in contact with these people. The wholesaler has sat back and done little to determine how he can help these markets. In other words, the wholesaler must decide where his markets are and how to best serve them. He need not serve them all poorly, but rather



one or two well.

### Polarization of Wholesalers

Wholesaling in the PHC industry is polarizing into two groups - the large, national, multi-branch wholesalers who are often vertically integrated with at least one manufacturer, and at the other end, the small and medium-sized wholesalers who may operate one or two branches or a small chain of six or eight branches. These are not national in character, however, and are not vertically integrated in any way, and generally conform to the writer's definition of an independent.

While there was some difference of opinion expressed in the replies as to whether buying power was much of a competitive factor at each pole, it is this writer's opinion that "the big buy better". This does not mean there are tremendous differences in pricing arrangements, although this may be so. In fact, prices may differ by one one or two percentage points. Other arrangements, however, can include special "dating" of accounts payable, or rebates for purchasing certain quantities.

These special arrangements can be a very important competitive factor in an industry where profits are low and volumes are high. Pricing such as this then is likely to result in increasing polarization in the future.

The independent then is likely to remain in the future at an opposite pole from the large, integrated wholesaler. Hence, price-wise, he will be unable to compete with the large companies. Coupled with this problem is the independents' problems of access to funds for



capital expansion, inventories and accounts receivable. Often there is a thinness of managerial assets as well.

The independent then, assuming he wishes to remain as such, must be aware of these facts and act accordingly. The future lies largely with himself. One must remember that direct selling by the manufacturer affects all sectors of wholesaling and not merely the independent. Hence, he should quit worrying about being bypassed and find those markets and products to which he can attune himself.

The previously-mentioned mobile home and prefabricated housing markets together with the remodelling-renovation markets are examples. Whether the independent wholesaler can serve these markets remains to be seen. Most respondents did indicate, however, that the independent was in a better position to serve them than the large PHC wholesaler.

The future of the independent could be bright. He must be content with smaller volumes, higher costs, and probably lower profits than his big competitors. Undoubtedly, the major conclusion of this thesis must be that the independent wholesaler must decide where his market is and then determine how to serve it in the most efficient manner.

He must further review what functions he can perform for these new markets and allow either the manufacturer or retailer to perform the other functions. The day of the traditional wholesaler performing all of the functions outlined in Chapter III is finished, yet still many independents feel it is their right to perform all these



functions. This is simply unrealistic, and the sooner the independent realizes this, the more prosperous he will become.

### The Vertical Market System

The reader will recall from Chapter IV the discussion of vertical marketing systems. It was suggested here that . . . "the concept of functional shiftability has replaced the concept of role separation".<sup>1</sup> Furthermore, conventional marketing channels seem to be becoming economic anachronisms.

Three types of vertical systems: corporate, contractual and administered, were discussed. In the questionnaire, however, these terms were not used as it was thought they would prove to be too confusing (see question number five).

As mentioned earlier, replies to this question were not as complete as the writer had wished. However, in the analysis of the replies, certain consistencies did appear.

Vertical integration, or the corporate system, had a very real future in the PHC industry. Manufacturers felt they needed more control over the distribution of their products. Crane and Emco, as mentioned earlier, have been integrated vertically for quite some time, and recently Emco announced the acquisition of another manufacturer, Stamped and Enamelled Ware Ltd.

As well, an industry observer suggested to this writer that American-Standard was negotiating to acquire a wholesale PHC chain. If this happens, American-Standard would be the only full integrated (manu-

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<sup>1</sup>McCammon, et al., Emerging Patterns of Distribution, p. 2.



facturer-wholesaler-retailer) PHC organization in North America.

Wholesale-sponsored voluntary groups were considered as a future possibility by two observers. One could visualize greater buying power achieved by group purchases among small independents. This solution is particularly suitable to the small independent in this writer's opinion because of ease of communications and agreement. The large independent in the opinion of one observer buys almost as well as the national chains now.

Retailer-owned co-operatives are not a likely possibility in the PHC industry. The large contractor has maximum buying power, and the small contractor who could benefit from an arrangement such as this usually lacks the sophistication. As well, as this observer suggests, group buying necessitates storage, a function heretofore performed by the wholesaler.

This form of group buying from the wholesaler is a real possibility, although it is unlikely this arrangement could bypass the wholesaler. The wholesaler would be willing to increase discounts substantially under this purchase plan.

Franchised store programs are a real possibility, as mentioned by one observer. He suggests "The Bath" as only the beginning of a very successful program.

The writer also believes this to be a real possibility. For example, plumbing contractors in Toronto were quite disgruntled with American-Standard's entrance into retail merchandising.<sup>2</sup> Yet, if

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<sup>2</sup>Contractor, June 1, 1969, p. 1.



American-Standard were to now set up a program to assist the plumber in entering the "boutique" business, the program could be a tremendous success, and could promote the sale of American-Standard products, rather than hinder them.

Only one respondent commented on the administered system, or manufacturer-control of a particular line in a store. Because of the lack of merchandising experience on the part of the manufacturer, use of this system appears unlikely. However, if "The Bath" proved to be successful, this writer feels the door could be opened to administered systems.

#### Horizontal Integration

Observers felt horizontal integration could not be looked at as an alternative to vertical integration. Rather, the only advantage to horizontal integration at the wholesaler level was the removal of excess competition. At the manufacturing level, reasons of improving corporate profitability and protection of existing products were cited as advantages by these observers.

For the independent, horizontal integration has other advantages. For example, integration with a larger financially or managerially strong company could provide the independent with needed financial and managerial help. This is too important to be ignored because, as mentioned earlier, many independents suffer from lack of these assets.

#### The Future of the Independent

The writer concludes from the preceding discussion that the future of the independent is limited. From the responses to the ques-



tionnaire, the independent wholesaler's problem is found in his inability or unwillingness to develop new markets. to specialize, and to merchandise.

The manufacturer feels neither the wholesaler nor the plumber is doing much to merchandise his products.

The wholesaler, by his past performance, indicates his unwillingness to do other than those functions which he performs best. He does not want the retailing job it seems, but would rather supply the retail trade.

From the material obtained through the questionnaire, the future of the independent is bleak indeed. From this evidence, the independent should prolong his life through specialization, group buying or even horizontal integration.

However, both wholesalers and manufacturers replying to the questionnaire have seemingly ignored what was described in Chapter III as the basic marketing function, the sorting process. Perhaps this aspect was taken for granted.

However, perhaps the PHC industry does not "see the forest for the trees". That is to say, the survival of the independent wholesaler depends on his ability to do a job in the marketplace. This writer's suggestion is the function of sorting, the basic marketing function, can best be done by the wholesaler.

This thesis is only an introductory study into a very complex and virtually unresearched area. It is very broad in nature and at times, vague. However, it does provide the necessary groundwork for future research. The various functions of the wholesaler have been



documented as well as the feelings of members of the industry.

Future research should include an attempt to cost each function the wholesaler performs. This might provide insight into the area of what functions the wholesaler should be performing. More research should be done concerning the differences, if any, between large and small outlets, and between manufacturer-owned and independent outlets.

The writer erred in not analyzing each business sufficiently nor in sufficient scrutiny of each function. As well, the writer's visibility in the industry because of his association with a family-owned wholesale outlet would have introduced certain biases as outlined in Chapter II.

It is my hope that because of this thesis, industry leaders will be more responsive to future research. Some difficulty was encountered with local management of competitive firms because of the writer's association with the industry.

Industry members should look at their responses and decide for themselves if this is really the way it is, or the way they would like it to be. The study was conducted at a low point in economic conditions, and with other biases previously mentioned, could serve to colour responses somewhat.

I would not necessarily be hesitant at this point to go into the wholesaling business in either the PHC industry or elsewhere. However, I would hope to remember my basic function in the marketing process, that of sorting.

Finally, the up-to-date information available on wholesaling



in general, and more specifically the PHC industry, is deplorable. Government statistics are available for the 1961 census and not later as of April 1, 1971. The CIPH collects information quite admirably, yet 1968 information is not available due to "insufficient reports". One wonders why wholesalers did not feel it necessary to report vital information in what observers say has been one of the worst years in history of the PHC industry.



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## APPENDIX



## APPENDIX

### WHOLESALE OPERATING COSTS SURVEY - 1967

#### VOLUME GROUPS

1. Wholesale sales up to \$1,000,000
2. Wholesale sales from \$1,000,000 to \$2,000,000
3. Wholesale sales from \$2,000,000 to \$5,000,000
4. Wholesale sales over \$5,000,000

#### AREAS

Reports received have been divided into five geographical areas:

- (A) Maritime Provinces
- (B) Province of Quebec
- (C) Province of Ontario
- (D) Prairie Provinces
- (E) Province of British Columbia

#### NUMBER REPORTING

The equivalent of one hundred and thirty-six individual reports are included. In several reporting companies more than one branch was included in some area returns and these have been reported herein as individual units for each branch involved.

Where there were not at least three returns for a Volume Group in any area, the reports of that Volume Group were combined with those of the Volume Group next above (or below where that was necessary).



SUMMARIES PREPARED

Two groups of summaries have been prepared:

1. National Averages - all reports by respective Volume Groups, regardless of areas.
2. Geographical Averages - all reports for each geographical area by respective Volume Groups.

In each case two divisions of data are presented:

- (A) Report of Operations - averages, by Volume Groups, of all reports submitted - expense classifications shown in total only.
- (B) Details of Expenses - averages of details of each expense item of all firms reporting on each particular item.

Where at least three firms in any group have not reported on an item, percentages were not shown for that item.

Columns have been provided on each sheet of the summary for the insertion of percentages of each individual firm for the years 1967 and 1966. Such comparison of the firm's own percentage with the average as shown prove valuable.

The following tables are reproduced from: 'The Canadian Institute of Plumbing and Heating "Survey of Operating Cost", Montreal, 1967', (mimeographed).



## VOLUME GROUPS

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	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures	
	Up to 1,000,000		Up to 2,000,000		Up to 5,000,000		Over 5,000,000		1967	1966
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966
	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)
1. Do sales figures include other products	6 51	- 13	6 45	2 37	- 20	2 21	1 7	2 11		
2. If yes, do others total over 35%	4 53	- 13	2 49	- 39	- 20	2 21	- 8	1 12		
3. Net wholesale sales	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00		
4. Cost of goods sold	83.61	80.38	83.17	82.65	84.17	83.15	84.78	83.97		
5. Gross profit on sales	16.39	19.62	16.83	17.35	15.83	16.85	15.22	16.03		
6. Direct Selling Expenses(x)	3.09	3.00	3.00	2.81	2.71	2.81	2.86	2.86		
7. Warehouse, Receiving and Shipping Expenses (x)	3.56	4.02	3.40	2.95	2.99	2.89	3.06	2.84		
8. Occupancy Expenses (x)	1.06	1.09	1.08	.95	.93	.81	1.19	1.08		
9. General & Admin. Expenses (x)	6.05	7.32	6.29	6.97	5.27	6.35	5.92	5.93		
10. Financial Expenses	.33	.34	.41	.44	.27	.37	.35	.49		
11. Total Operating Expenses	14.09	15.77	14.17	14.12	12.16	13.23	13.38	13.20		
12. Operating Profit	2.30	3.85	2.66	3.23	3.67	3.62	1.84	2.83		
13. Non-Operating Income	.27	.12	.33	.11	-	.30	.61	.32		
14. Non-Operating Expenses	.79	.08	1.77	.21	-	.16	-	.12		
15. Net Profit before Income Tax	1.99	3.89	2.45	3.13	3.48	3.76	1.61	3.03		
16. Average Sales per Employee	\$ 88,470.00	\$ 71,903.00	\$ 92,831.00	\$ 87,888.00	\$ 102,250.00	\$ 94,554.00	\$ 93,784.00	\$ 91,000.00		
17. Average Sales per Salesman	\$624,119.00	\$422,154.00	\$701,791.00	\$547,185.00	\$623,466.00	\$619,753.00	\$805,134.00	\$701,238.00		

(x) Additional Detail on following page

NOTE: No statistics have been published in any group where the number of firms reporting was less than 3. Such statistics were incorporated in the next higher (or lower) group.



	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figure
	1967	1966	1967	1966	1967	1966	1967	1966	
18. Net Sales compared with last year	3.37	5.96	3.06	8.90	8.25	9.19	-	5.15	1.00
19. Inventory NOW, compared with 12 months ago	4.30	6.14	5.39	10.84	8.10	-	.84	6.72	2.93
20. Inventory Turnover Rate (Times)	5.51	5.41	6.11	5.33	4.98	5.56	5.72	5.72	5.72
21. Return on Investment in Receivables & Inventory	9.00	7.32	9.59	10.68	13.96	12.19	4.86	9.15	9.15

## NATIONAL AVERAGES - ADDITIONAL DETAIL ON ITEMS 6, 7, 8 &amp; 9xx- As Percentages of Net Sales

Details of Expenses6. Direct Selling Expenses

- a) Sales, salaries & Comm.  
 b) Salesmen's & dir. sel. exp.  
 c) Advertising & Sales Promotion

1.84	2.15	1.92	1.73	1.78	1.71	1.93	1.82
.71	.95	.72	.79	.64	.77	.59	.59
.54	.16	.37	.36	.33	.33	.35	.53

7. Warehouse, Receiving & Shipping Expenses

- a) Salaries of all warehouse employees  
 b) Ins., repairs, gas and oil, depreciation of trucks, garage, truck and driver rental if applicable  
 c) Outgoing del. by carriers  
 d) Packing & ship. materials  
 e) Other warehousing exp.

2.28	2.94	2.18	1.91	1.88	1.86	1.63	1.81
.51	.77	.51	.52	.48	.59	.66	.43
.67	.33	.60	.42	.37	.36	.57	.43
.89	.07	.09	.07	.08	.07	.08	.07
.19	.10	.18	.16	.24	.13	.12	.16

8. Occupancy Expenses

- a) Rent and depreciation on buildings  
 b) Taxes and insurance  
 c) Light, power and heat

.52	.52	.57	.51	.40	.33	.70	.67
.45	.41	.40	.33	.37	.33	.34	.25
.15	.89	.16	.15	.17	.16	.15	.16

9. General & Admin. Expenses

- a) Office salaries  
 b) Executive salaries  
 c) Depreciation on furniture and office equipment  
 d) Suppl., postage, tel., etc.  
 e) Other admin. expenses  
 f) Bad debts expense  
 g) Fringe benefits

2.13	1.80	2.19	2.26	1.77	1.93	2.30	2.16
1.11	2.05	1.17	1.28	.77	1.03	.85	.87
.08	.07	.09	.07	.07	.08	.35	.23
1.15	.91	1.11	1.01	.89	.92	.94	1.08
1.01	1.40	1.25	1.66	1.53	1.71	1.00	.92
.20	.34	.22	.34	(13)	.45	.07	.31
.44	.44	.38	.34	.36	.32	.43	.37

xx NOTE: Some of the firms did not report in detail on Items 6, 7, 8 & 9 above. The foregoing percentages are, for each item, the average of the figures of the firms that have reported on that item. Consequently, the foregoing percentages will not necessarily agree in total with the overall percentages of all reporting firms, as shown on the preceding page.



## VOLUME GROUPS

	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures 1967 1966
	Up to 1,000,000 1967	(Yes) (No)	Up to 2,000,000 1967	(Yes) (No)	Up to 5,000,000 1967	(Yes) (No)	Over 5,000,000 1967	(Yes) (No)	
1. Do sales figures include other products	4 5	(Yes) (No)	2 6	(Yes) (No)	1 2	(Yes) (No)	3 4	(Yes) (No)	1967 1966
2. If yes, do others total over 35%	4 5	(Yes) (No)	2 6	(Yes) (No)	1 2	(Yes) (No)	3 4	(Yes) (No)	1967 1966
3. Net wholesale sales	100.00		100.00		100.00		100.00		1967 1966
4. Cost of goods sold	82.27		82.75		82.74		82.74		1967 1966
5. Gross profit on sales	17.73		17.25		17.26		17.26		1967 1966
6. Direct Selling Expenses(x)	3.25		3.04		2.93		2.93		1967 1966
7. Warehouse, Receiving and Shipping Expenses (x)	4.57		4.11		2.90		2.90		1967 1966
8. Occupancy Expenses (x)	1.33		1.42		.88		.88		1967 1966
9. General & Admin. Expenses (x)	6.86		6.69		6.69		6.69		1967 1966
10. Financial Expenses	.26		.16		.18		.18		1967 1966
11. Total Operating Expenses	16.27		15.42		13.57		13.57		1967 1966
12. Operating Profit	1.46		1.83		3.69		3.69		1967 1966
13. Non-Operating Income	.83		-		-		-		1967 1966
14. Non-Operating Expenses	-		-		-		-		1967 1966
15. Net Profit before Income Tax	1.82		2.00		3.69		3.69		1967 1966
16. Average Sales per Employee	N/A		N/A		N/A		N/A		1967 1966
17. Average Sales per Salesman	\$607,509.00		\$552,844.00		\$463,831.00		\$463,831.00		1967 1966

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(x) Additional Detail on following page

NOTE: No statistics have been published in any group where the number of firms reporting was less than 3. Such statistics were incorporated in the next higher (or lower) group.



	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures	
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966
18. Net Sales compared with last year	- 1.99		- 1.93	2.99						
19. Inventory NOW, compared with 12 months ago	- 8.19		2.01	7.69						
20. Inventory Turnover Rate (Times)	4.62		5.20	5.97						
21. Return on Investment in Receivables & Inventory	10.35		12.73	14.12						

## MARITIME PROVINCES AVERAGES - ADDITIONAL DETAIL ON ITEMS 6, 7, 8 &amp; 9xx- As Percentages of Net Sales

Details of Expenses6. Direct Selling Expenses

- a) Sales, salaries & Comm. 1.85  
 b) Salesmen's & dir. sel. exp. .74  
 c) Advertising & Sales Promotion .66

7. Warehouse, Receiving & Shipping Expenses

- a) Salaries of all warehouse employees 2.90  
 b) Ins., repairs, gas and oil, depreciation of trucks, garage, truck and driver rental if applicable .39  
 c) Outgoing del. by carriers 1.07  
 d) Packing and ship. materials .13  
 e) Other warehousing exp. .14

8. Occupancy Expenses

- a) Rent and depreciation on buildings .44  
 b) Taxes and insurance .64  
 c) Light, power and heat .25

9. General & Admin. Expenses

- a) Office salaries 2.27  
 b) Executive salaries 1.14  
 c) Depreciation on furniture and office equipment .11  
 d) Suppl., postage, tel., etc. 1.24  
 e) Other admin. expenses 1.94  
 f) Bad debts expense .02  
 g) Fringe benefits .42

xx NOTE: Some of the firms did not report in detail on Items 6, 7, 8 & 9 above. The foregoing percentages are, for each item, the average of the figures of the firms that have reported on that item. Consequently, the foregoing percentages will not necessarily agree in total with the overall percentages of all reporting firms, as shown on the preceding page.



VOLUME GROUPS

	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures			
	Up to 1,000,000		Up to 2,000,000		Up to 5,000,000		Over 5,000,000		1967			
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966		
	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)		
1. Do sales figures include other products	2	1	3	9	-	6	-	3	1	4	1	4
2. If yes, do others total over 35%	-	3	-	12	-	6	-	3	1	2	-	5
3. Net wholesale sales	100.00		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
4. Cost of goods sold	85.28		82.82	83.98	83.86	82.88	84.20	83.88				
5. Gross profit on sales	14.72		17.18	16.02	16.14	17.12	15.80	16.12				
6. Direct Selling Expenses(x)	3.06		3.21	2.66	2.96	3.27	3.11	2.90				
7. Warehouse, Receiving and Shipping Expenses (x)	4.17		3.25	3.50	3.00	2.33	3.00	2.54				
8. Occupancy Expenses (x)	1.37		1.02	1.17	1.46	1.07	1.23	1.32				
9. General & Admin. Expenses (x)	6.53		6.08	6.84	4.46	5.15	6.32	6.32				
10. Financial Expenses	.41		.59	.65	.34	.48	.33	.34				
11. Total Operating Expenses	15.54		14.15	14.82	12.22	12.30	13.99	13.42				
12. Operating Profit	(82)		3.03	1.20	3.92	4.82	1.81	2.70				
13. Non-Operating Income	-		.26	.23	-	.03	.61	.28				
14. Non-Operating Expenses	-		1.80	.10	-	.71	-	-				
15. Net Profit before Income Tax	(82)		2.26	1.33	3.45	4.14	1.45	2.98				
16. Average Sales per Employee	N/A		N/A	N/A	N/A	N/A	N/A	N/A				
17. Average Sales per Salesman	\$530,743.00		\$932,534.00	\$522,113.00	\$557,926.00	\$497,534.00	\$853,552.00	\$903,619.00				

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(x) Additional Detail on following page

NOTE: No statistics have been published in any group where the number of firms reporting was less than 3. Such statistics were incorporated in the next higher (or lower) group.



	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures	
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966
18. Net Sales compared with last year	- 8.20		.92	4.04	4.14	- 1.18	- 5.93	9.12		
19. Inventory NOW, compared with 12 months ago	.01		5.25	27.88	15.76	- 22.22	3.61	7.26		
20. Inventory Turnover Rate (Times)	4.83		4.83	5.14	7.57	5.70	4.58	5.64		
21. Return on Investment in Receivables & Inventory	1.06		4.90	2.10	14.90	14.67	1.47	8.95		

QUEBEC PROVINCIAL AVERAGES - ADDITIONAL DETAIL ON ITEMS 6, 7, 8 & 9xx- As Percentages of Net Sales

Details of Expenses

6. <u>Direct Selling Expenses</u>										
a) Sales, salaries & Comm.	1.63		2.33	1.61	2.27	1.53	2.23	2.06		
b) Salesmen's & dir. sel. exp.	.68		.51	.70	.63	1.35	.55	.42		
c) Advertising & Sales Promotion	.74		.37	.47	-	.39	.34	.42		
7. <u>Warehouse, Receiving &amp; Shipping Expenses</u>										
a) Salaries of all warehouse employees	2.56		1.85	1.98	2.08	1.56	1.49	1.37		
b) Ins., repairs, gas and oil, depreciation of trucks, garage, truck and driver rental if applicable	.90		.67	1.09	.63	.56	.64	.52		
c) Outgoing del. by carriers	-		.69	.37	.22	.20	.65	.44		
d) Packing & ship. materials	-		.07	.09	-	.07	.09	.09		
e) Other warehousing exp.	.19		.10	.13	-	NSR	.14	.12		
8. <u>Occupancy Expenses</u>										
a) Rent and depreciation on buildings	.70		.57	.80	.69	.46	.76	.97		
b) Taxes and insurance	.45		.29	.25	.38	.37	.30	.20		
c) Light, power and heat	.22		.18	.16	.39	.24	.16	.15		
9. <u>General &amp; Admin. Expenses</u>										
a) Office salaries	2.73		2.14	2.44	1.93	1.97	2.24	2.17		
b) Executive salaries	1.38		1.13	1.25	.92	.85	1.04	.98		
c) Depreciation on furniture and office equipment	.08		.15	.08	.11	.11	.53	.49		
d) Suppl., postage, tel., etc.	.92		1.15	.99	.61	.49	1.03	1.05		
e) Other admin. expenses	.95		.70	.98	1.03	2.05	.91	.93		
f) Bad debts expense	.06		.49	.83	(41)	.16	.36	.34		
g) Fringe benefits	-		.36	.32	.26	.31	.44	.36		

xx NOTE: Some of the firms did not report in detail on Items 6, 7, 8 & 9 above. The foregoing percentages are, for each item, the average of the figures of the firms that have reported on that item. Consequently, the foregoing percentages will not necessarily agree in total with the overall percentages of all reporting firms, as shown on the preceding page.



VOLUME GROUPS

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	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures 1967 1966
	Up to 1,000,000 1967	(Yes) (No)	Up to 2,000,000 1967	(Yes) (No)	Up to 5,000,000 1967	(Yes) (No)	Over 5,000,000 1967	(Yes) (No)	
1. Do sales figures include other products	- 23	- 10	1 13	2 11	- 6	- 9	- 3	- 3	
2. If yes, do others total over 35%	- 23	- 10	- 14	- 13	- 6	- 9	- 3	- 3	
3. Net wholesale sales	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
4. Cost of goods sold	82.71	79.08	83.30	82.51	84.07	83.78	85.74	85.00	
5. Gross profit on sales	17.29	20.92	16.70	17.49	15.93	16.22	14.26	15.00	
6. Direct Selling Expenses(x)	3.36	3.09	2.95	2.74	2.68	2.69	2.45	2.28	
7. Warehouse, Receiving and Shipping Expenses (x)	3.77	4.27	3.71	3.27	3.28	3.17	3.16	2.97	
8. Occupancy Expenses (x)	1.29	1.11	1.17	.89	1.07	.77	1.13	.90	
9. General & Admin. Expenses (x)	6.54	7.72	6.71	6.90	5.24	6.68	5.24	5.55	
10. Financial Expenses	.40	.31	.20	.29	.42	.28	.38	.27	
11. Total Operating Expenses	15.36	16.50	14.74	14.10	12.63	13.60	12.36	11.98	
12. Operating Profit	1.93	4.42	1.96	3.39	3.30	2.62	1.90	3.02	
13. Non-Operating Income	.11	.15	.69	.07	-	.19	-	.14	
14. Non-Operating Expenses	.21	.10	-	.02	-	-	-	-	
15. Net Profit before Income Tax	1.39	4.47	2.11	3.44	3.11	2.80	1.87	3.16	
16. Average Sales per Employee	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
17. Average Sales per Salesman	\$591,756.00	\$416,687.00	\$736,921.00	\$551,598.00	\$577,669.00	\$644,969.00	\$724,438.00	\$516,194.00	

x) Additional Detail on following page

NOTE: No statistics have been published in any group where the number of firms reporting was less than 3. Such statistics were incorporated in the next higher (or lower) group.



	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures	
	1967	1966	1967	1966	1967	1966	1967	1966	1967	1966
18. Net Sales compared with last year	-	1.51	6.17	.93	12.54	11.83	-	3.84	19.32	
19. Inventory NOW, compared with 12 months ago	3.06	4.26	5.29	4.26	-	.49	11.90	2.18		
20. Inventory Turnover Rate (Times)	5.05	5.42	5.98	6.20	.70	6.64	6.85	6.67		
21. Return on Investment in Receivables & Inventory	1.79	7.84	8.92	12.00	11.44	10.64	8.24	8.39		

ONTARIO PROVINCIAL AVERAGES - ADDITIONAL DETAIL ON ITEMS 6, 7, 8 & 9xx- As Percentages of Net Sales

Details of Expenses

6. Direct Selling Expenses

- a) Sales, salaries & Comm.
- b) Salesmen's & dir. sel. exp.
- c) Advertising & Sales Promotion

2.18	2.26	1.85	1.95	1.93	1.73	1.43	1.39
.72	.93	.76	.73	.69	.70	.67	.54
.46	.14	.35	.23	.06	.26	.36	.52

7. Warehouse, Receiving & Shipping Expenses

- a) Salaries of all warehouse employees
- b) Ins., repairs, gas and oil, depreciation of trucks, garage, truck and driver rental if applicable
- c) Outgoing del. by carriers
- d) Packing & ship. materials
- e) Other warehousing exp.

2.36	3.10	2.47	2.27	2.21	2.02	1.87	1.77
.68	.88	.74	.61	.66	.70	.69	.62
.51	.36	.35	.29	.24	.25	.43	.35
.08	.07	.07	.05	.03	.05	.07	.07
.17	.12	.16	.14	.14	.16	.09	.17

8. Occupancy Expenses

- a) Rent and depreciation on buildings
- b) Taxes and insurance
- c) Light, power and heat

.59	.56	.59	.41	.45	.24	.59	.44
.52	.40	.52	.38	.46	.39	.40	.29
.17	.20	.14	.14	.16	.14	.14	.16

9. General & Admin. Expenses

- a) Office salaries
- b) Executive salaries
- c) Depreciation on furniture and office equipment
- d) Suppl., postage, tel., etc.
- e) Other admin. expenses
- f) Bad debts expense
- g) Fringe benefits

2.21	1.74	2.46	2.26	1.74	1.76	2.41	2.21
1.34	2.90	1.40	1.58	.72	.96	.52	.66
.08	.08	.05	.06	.06	.05	.06	.04
1.19	.96	.85	.91	.86	.91	.80	1.09
.97	1.25	1.47	1.46	1.73	1.87	1.14	1.12
.24	.54	.13	.22	(24)	.82	-	.13
.51	.48	.48	.40	.39	.30	.41	.30

xx NOTE: Some of the firms did not report in detail on Items 6, 7, 8 & 9 above. The foregoing percentages are, for each item, the average of the figures of the firms that have reported on that item. Consequently, the foregoing percentages will not necessarily agree in total with the overall percentages of all reporting firms, as shown on the preceding page.



## VOLUME GROUPS

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	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures 1967 1966
	Up to 1,000,000 1967	1966	Up to 2,000,000 1967	1966	Up to 5,000,000 1967	1966	Over 5,000,000 1967	1966	
	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	(Yes) (No)	
1. Do sales figures include other products	- 13		- 12 - 14	- 11			1 10		
2. If yes, do others total over 35%	- 13		- 12 - 14	- 11			1 10		
3. Net wholesale sales	100.00		100.00	100.00	100.00		100.00		
4. Cost of goods sold	83.95		83.52	82.99	84.31		83.10		
5. Gross profit on sales	16.05		16.48	17.01	15.69		16.90		
6. Direct Selling Expenses(x)	2.78		2.91	2.69	2.66		2.75		
7. Warehouse, Receiving and Shipping Expenses (x)	2.63		2.85	2.48	2.83		2.85		
8. Occupancy Expenses (x)	.66		.91	.86	.71		.71		
9. General & Admin. Expenses (x)	5.28		5.87	6.79	5.50		6.34		
10. Financial Expenses	.37		.67	.48	.19		.44		
11. Total Operating Expenses	11.72		13.22	13.30	11.89		13.09		
12. Operating Profit	4.33		3.27	3.71	3.80		3.81		
13. Non-Operating Income	.13		.24	.05	-		.36		
14. Non-Operating Expenses	-1.72		1.72	.50	-		-		
15. Net Profit before Income Tax	3.71		2.85	3.26	3.69		4.17		
16. Average Sales per Employee	N/A		N/A	N/A	N/A		N/A		
17. Average Sales per Salesman	\$669,744.00		\$558,222.00	\$546,291.00	\$666,320.00		\$647,835.00		

Additional Detail on following page

NOTE: No statistics have been published in any group where the number of firms reporting was less than 3. Such statistics were incorporated in the next higher (or lower) group.



	GROUP 1	GROUP 2	GROUP 3	GROUP 4	Your Figures
	1967	1966	1967	1966	1967
		1966	1967	1966	1966
18. Net Sales compared with last year	11.90	8.31	10.44	14.12	9.11
19. Inventory NOW, compared with 12 months ago	8.67	3.96	13.00	10.83	.56
20. Inventory Turnover Rate (Times)	6.36	4.80	4.67	6.35	4.60
21. Return on Investment in Receivables & Inventory	18.78	10.20	11.46	14.93	12.60

PRAIRIE PROVINCES AVERAGES - ADDITIONAL DETAIL ON ITEMS 6, 7, 8 & 9XX - As Percentages of Net Sales

### Details of Expenses

[illegible]

xx NOTE: Some of the firms did not report in detail on Items 6, 7, 8 & 9 above. The foregoing percentages are, for each item, the average of the figures of the firms that have reported on that item. Consequently, the foregoing percentages will not necessarily agree in total with the overall percentages of all reporting firms, as shown on the preceding page.



## VOLUME GROUPS

	GROUP 1		GROUP 2		GROUP 3		GROUP 4		Your Figures 1967 1966
	Up to 1,000,000 1967	(Yes) (No) (Yes) (No)	Up to 2,000,000 1967	(Yes) (No) (Yes) (No)	Up to 5,000,000 1967	(Yes) (No) (Yes) (No)	Over 5,000,000 1967	(Yes) (No) (Yes) (No)	
1. Do sales figures include other products	-	9	-	5 - 3					
2. If yes, do others total over 35%	-	9	-	5 - 3					
3. Net wholesale sales	100.00		100.00	100.00			100.00		
4. Cost of goods sold	83.61		83.43	80.94			83.90		
5. Gross profit on sales	16.39		16.57	19.06			16.10		
6. Direct Selling Expenses(x)	3.09		2.82	3.58			2.54		
7. Warehouse, Receiving and Shipping Expenses (x)	3.56		3.10	3.07			3.11		
8. Occupancy Expenses (x)	1.06		.83	1.33			.90		
9. General & Admin. Expenses (x)	6.05		5.96	7.95			5.52		
10. Financial Expenses	.33		.25	1.03			.38		
11. Total Operating Expenses	14.09		12.96	16.96			12.45		
12. Operating Profit	2.30		3.61	2.09			3.65		
13. Non-Operating Income	.27		-	.44			.44		
14. Non-Operating Expenses	.79		-	.05			.38		
15. Net Profit before Income Tax	1.99		3.63	2.48			3.71		
16. Average Sales per Employee	N/A		N/A	N/A			N/A		
17. Average Sales per Salesman	\$624,119.00		\$680,531.00	\$308,586.00			\$628,046.00		

(x) Additional Detail on following page

NOTE: No statistics have been published in any group where the number of firms reporting was less than 3. Such statistics were incorporated in the next higher (or lower) group.



18. Net Sales compared with last year
19. Inventory NOW, compared with 12 months ago
20. Inventory Turnover Rate (Times)
21. Return on Investment in Receivables & Inventory

1966 1967

8.40

13.26

5.75

8.05

## BRITISH COLUMBIA PROVINCIAL AVERAGES - ADDITIONAL DETAIL ON ITEMS 6, 7, 8 &amp; 9xx- As Percentages of Net Sales

Details of Expenses6. Direct Selling Expenses

- a) Sales, salaries & Comm.
- b) Salesmen's & dir. sel. exp.
- c) Advertising & Sales Promotion

1.40

.82

.49

1.47

.76

.40

7. Warehouse, Receiving & Shipping Expenses

- a) Salaries of all warehouse employees
- b) Ins., repairs, gas and oil, depreciation of trucks, garage, truck and driver rental if applicable
- c) Outgoing del. by carriers
- d) Packing & ship. materials
- e) Other warehousing exp.

2.25

NSR

NSR

NSR

.34

2.27

NSR

.68

.10

.27

8. Occupancy Expenses

- a) Rent and depreciation on buildings
- b) Taxes and insurance
- c) Light, power and heat

.49

NSR

.07

.48

.23

.20

9. General & Admin. Expenses

- a) Office salaries
- b) Executive salaries
- c) Depreciation on furniture and office equipment
- d) Suppl., postage, tel., etc.
- e) Other admin. expenses
- f) Bad debts expense
- g) Fringe benefits

1.91

.82

.03

.98

.63

.26

.41

1.94

1.53

.03

1.13

.29

.25

.37

xx NOTE: Some of the firms did not report in detail on Items 6, 7, 8 & 9 above. The foregoing percentages are, for each item, the average of the figures of the firms that have reported on that item. Consequently, the foregoing percentages will not necessarily agree in total with the overall percentages of all reporting firms, as shown on the preceding page.



C. I. P. H. WHOLESALE DIVISIONREPORTING FORMWholesaler Operating Costs - Fiscal Year 1967VOLUME CLASS

- I - Up to \$1,000,000.  
 II - Up to \$2,000,000.  
 III - Up to \$5,000,000.  
 IV - Over \$5,000,000.


1. Do figures submitted include sales of other products than those generally classed as P & H, for example hardware, metal mill products, mill supplies, etc. YES ☐  
 NO ☐
2. If answer is YES, do sales of these other products amount to more than 35% of your total sales? YES ☐  
 NO ☐
3. NET WHOLESALE SALES (Gross Sales, including Federal (not Provincial) Sales Tax - less returns, allowances and cash discount) equals 100% ☐

EXPLANATORY NOTES:

- (a) The figures required in the following questions are in terms of percentages of your net wholesale sales for the year 1967 (as defined above) and are requested to be extended to two decimal points.
- (b) Questions 6 to 10 cover the five major items of expense in our type of business. These are further sub-divided according to normally accepted accounting practices. If the sub-divisions do not conform exactly to your accounting system, you are requested to apply your information to the classification given as accurately as possible. In every case provide percentage figures. (Please do not insert new expense headings).
- (c) It is recognized that certain member businesses do not have outgoing delivery expenses due to an operating policy variation from standard. In such cases, please indicate by "nil" in sub-section (c) of Item 7.
- (d) "FRINGE BENEFITS", include the company's share of the cost of pension, hospital, medical and life insurance plans; unemployment insurance; workmen's compensation insurance and minimum wage commission plans.
- (e) "OFFICE SALARIES", include Credit Manager, Controller, Office Manager, Accountant, Purchasing Agent, and all other office staff except,
- (f) "EXECUTIVE SALARIES", include Company Officers and Manager, Assistant Manager, Partners' and Directors' salaries.
- (g) "INWARD TRANSPORTATION" should not be treated as an expense as it is actually a part of the cost of materials purchased.

4. COST OF GOODS SOLD (Opening inventory - plus net purchases (less cash discounts), freight and transport charges inward, and duty charges - (PLUS SALES TAX IF APPLICABLE) less closing inventory.) \_\_\_\_\_%

5. GROSS PROFIT ON SALES \_\_\_\_\_%



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6. DIRECT SELLING EXPENSES

- a) Sales Managers' and salesmen's salaries, commissions. \_\_\_\_\_%
- b) Sales Managers' and salesmen's expenses and other direct selling expenses, including entertainment; and depreciation and maintenance of cars used for selling. \_\_\_\_\_%
- c) Advertising and sales promotion \_\_\_\_\_%
- d) Total \_\_\_\_\_%

7. WAREHOUSE, RECEIVING & SHIPPING EXPENSES

- a) Salaries or wages of all warehouse employees, shippers, receivers, checkers, drivers and assistants, and supervisors. \_\_\_\_\_%
- b) Insurance, repairs, gas and oil, and depreciation on trucks, garage rent, etc. Truck and driver rental charges if applicable. \_\_\_\_\_%
- c) Outgoing delivery charges by common carriers. \_\_\_\_\_%
- d) Packing and Shipping Materials \_\_\_\_\_%
- e) Other warehousing and delivery expenses. \_\_\_\_\_%
- f) Total \_\_\_\_\_%

8. OCCUPANCY EXPENSES

- a) Rent and depreciation on buildings \_\_\_\_\_%
- b) Taxes and insurance \_\_\_\_\_%
- c) Light, power and heat \_\_\_\_\_%
- d) Total \_\_\_\_\_%

9. GENERAL & ADMINISTRATIVE EXPENSES

- a) Office Salaries. See Explanatory Note E. \_\_\_\_\_%
- b) Executive Salaries. See Explanatory Note F. \_\_\_\_\_%
- c) Depreciation on furniture and office equipment. \_\_\_\_\_%
- d) Supplies, stationery, postage, tel & tel and other variables. \_\_\_\_\_%
- e) Other Administrative Expenses - including Head Office charges (if applicable), donations, dues. \_\_\_\_\_%
- f) Bad Debts Expense. \_\_\_\_\_%
- g) Fringe benefits. See Explanatory Note D. \_\_\_\_\_%
- h) Total \_\_\_\_\_%



10. FINANCIAL EXPENSES

Interest expenses, Bank charges etc.

\_\_\_\_\_ %

11. TOTAL OPERATING EXPENSESTotal of Items 6,7,8,9,10

\_\_\_\_\_ %

12. OPERATING PROFIT

Subtract Item 11 from Item 5

\_\_\_\_\_ %

13. NON OPERATING INCOME (Income from investments etc.)

\_\_\_\_\_ %

14. NON OPERATING EXPENSE (e.g. all expense related to non operating income).

\_\_\_\_\_ %

15. NET PROFIT BEFORE INCOME TAX

Add Items 12 and 13 then subtract Item 14.

\_\_\_\_\_ %

16. AVERAGE SALES PER EMPLOYEE

Net sales (Item 3) divided by average number of all employees. (a) Independent firms; (b) Chain or multiple branch operations. To be completed by Head Office for entire organization. Submit one figure to be included in National Averages only.

\$ \_\_\_\_\_

17. AVERAGE SALES PER SALESMAN

Net sales (Item 3) divided by average total number of outside salesmen whose sole responsibility is to contact customers.

\$ \_\_\_\_\_

18. NET SALES COMPARED WITH PREVIOUS YEAR

Are your sales up or down compared with last year?

Up ☐ Down ☐

By what percentage of last year?

\_\_\_\_\_ %

19. INVENTORY NOW COMPARED WITH 12 MONTHS AGO

Was your year-end inventory up or down compared with last year?

Up ☐ Down ☐

By what percentage of last year?

\_\_\_\_\_ %

20. INVENTORY TURNOVER RATE

Add monthly inventories and divide by twelve; divide answer into cost of goods sold for the year. (Take to two decimals)

\_\_\_\_\_ Times



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21. RETURN ON INVESTMENT IN RECEIVABLES AND INVENTORY

Add average monthly inventory to average monthly  
receivables and divide the result into net profit  
before tax.

           %

COMPLETED RETURN SHOULD BE MAILED BEFORE MAY 30, 1968, TO  
MR. D. R. PATTON OF PAYNE, PATTON & PUGSLEY, 1509 SHERBROOKE  
ST. WEST, MONTREAL 25, P.Q.

SUBMISSION BY

Company Name: \_\_\_\_\_

Address: \_\_\_\_\_

AUDITORS MAY CONTACT Mr. \_\_\_\_\_



June 5, 1969

Mr. A. Fleming  
Triangle Plumbing & Heating Supply  
40 Jutland Road  
Toronto 18, Ontario

Dear Alec:

As you know from our recent conversation, I am preparing a thesis at the University of Alberta as a requirement of the program leading to the degree of Master of Business Administration.

The subject I am researching concerns "The Future of the Independent Wholesaler in the Plumbing and Heating Industry in Canada", a subject with which you are also concerned.

As we discussed, it is very difficult to do accurate, meaningful research on this subject. However, I am attempting to gather the necessary information through the use of a short letter to a few knowledgeable wholesalers like yourself who have considered this question in the past.

I would appreciate it if you and Don would give some thought to the following questions:

1. Have patterns of distribution changed significantly since, say, the early 1950's?
2. What factors or conditions have caused these changes?
3. Many wholesalers are, of course, still independent in the traditional sense. Will they continue to exist as such in the future?
4. What changes will the independent have to make in order to remain independent?

/.....2



Mr. A. Fleming

- 2 -

June 5, 1969

5. Vertical marketing systems are one alternative, several types of which are possible: a) total vertical integration of manufacturer through to retailer, b) wholesaler sponsored voluntary groups, retailer owned co-operatives, or franchised store programs, c) manufacturer control of a particular line in a store, rather than control of the store's entire operation.

Would you indicate what you think the relative importance of each of these vertical systems will be in future wholesaler operations in the industry, and your reasons.

6. Horizontal or 'conglomerate' integration is also evident in the industry. Do you see this as an alternative to vertical systems?
7. What future do you see for your own company in this area?

I realize answering these questions will involve a substantial amount of your time and I apologize for the inconvenience. However, to my knowledge very little academic research has been done in this area and I feel the results will be worthwhile.

Please do not feel it is necessary to confine your reply to the above questions. The questions are intentionally broad to allow you the necessary latitude in answering.

I assure you your reply will be kept strictly confidential. If you wish, I will gladly make available to you a copy of my results, summarizing anonymously the responses to this letter, together with my thesis conclusions.

May I thank you in advance for your co-operation and request that you answer at your earliest convenience. Enclosed is a stamped and addressed envelope for your convenience.

Yours truly,

R. Fraser Balfour



Responses were solicited from the following persons:

Manufacturers

E. Blake  
General Sales Manager  
Kindred Industries Ltd.  
Kindred Road  
Midland, Ontario

J. Burgess  
President  
Wallaceburg Brass Ltd.  
Wallaceburg, Ontario

Donald F. O'Neil  
General Manager  
American-Standard Products (Canada) Limited  
80 Ward Street  
Toronto 172, Ontario

A. K. Dickinson  
Vice President of Sales  
Crane Canada Limited  
5800 Cote de Liesse Road  
(P.O. Box 2700, St. Laurent P.O.)  
Montreal 9, Quebec

Wholesalers

A. Fleming, President and  
R. Gray, General Manager  
Triangle Plumbing and Heating Supply  
40 Jutland Road  
Toronto 18, Ontario

Pierre Deschenes  
President  
Deschenes and Fils Ltee.  
8335 St. Michael Blvd.  
Montreal 455, Quebec

Roland Savoie  
Codere Ltee.  
P.O. Box 130  
Sherbrooke, Quebec



Wholesalers ....cont'd

E. G. Jarvis, President and General Manager  
W. Stairs and H. J. Hoskin  
Wm. Stairs Son and Morrow Ltd.  
3667 Strawberry Hill  
Halifax, Nova Scotia

E. A. Hosfood  
Sumner Co. Ltd.  
635 Main Street  
Moncton, New Brunswick

R. G. McMorran  
Emco Ltd. (Wholesale Division)  
69 Huxley Road  
Weston, Ontario

J. D. Forster  
Barrie Plumbing Supply Co. Ltd.  
156 Victoria Street  
Barrie, Ontario

S. Shergold  
Brampton Plumbing and Heating Supply Ltd.  
275 Queen Street East  
Brampton, Ontario

J. E. Gilson  
Marks and Company (Hamilton) Ltd.  
104 Robert Street  
(P.O. Box 43)  
Hamilton, Ontario

T. C. Sass  
J. B. Allen and Co. Ltd.  
108 Ahrens Street, West  
Kitchener, Ontario

A. G. Jackson  
Regional Sales Manager  
Cronkhite Companies Ltd.  
704 Chinook Professional Building  
Calgary 9, Alberta

A. T. Woods  
Manager  
Cronkhite Supply Ltd.  
302 - 50th Avenue, S. E.  
Calgary, Alberta



Wholesalers ....cont'd

G. D. Thompson  
Manager  
Cronkhite Supply Ltd.  
90 Market Avenue East  
Winnipeg, Manitoba

R. Jarvie, Director  
Cronkhite Companies Ltd.  
420, The Kingsway  
Islington, Ontario

Canadian Institute of Plumbing and Heating

G. H. Dixon  
General Manager  
Canadian Institute of Plumbing and Heating  
785 Plymouth Avenue, Suite #305  
Montreal 306, Quebec



Replies were received from the following persons:

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G. H. Dixon  
General Manager  
Canadian Institute of Plumbing and Heating  
785 Plymouth Avenue, Suite #305  
Montreal 306, Quebec



The following persons replied with regret that for various reasons they were unable to answer the questions posed, or replies were received too late for the first draft.

A. K. Dickinson  
Vice President of Sales  
Crane Canada Ltd.  
5800 Cote deLiesse Road  
(P.O. Box 2700, St. Laurent P.O.)  
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Winnipeg 2, Manitoba













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